CHAPTER -1

INTRODUCTION

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Introduction

House is “the residential environment, neighbourhood, micro-district or the physical structure that mankind uses for shelter and the environs of that structure, including all necessary services, facilities, equipment and device needed for the physical health and social well being of the family and the individual”1.

An Ad Hoc Expert Group convened in 1962 by the secretary General at the request of the Economic and Social council stated that “house is not ‘shelter’ or ‘household facilities’ alone but comprises a number of facilities, services and utilities which link the individual and his family to the community and community to the region in which it grows and progresses”2.

In 1970, another Ad Hoc Expert Group on social programming of housing in urban areas concluded that “In the fulfillment of social needs, housing plays both a direct and indirect role and both roles are decisive. In its direct role housing serve us the area where the individual becomes capable of experiencing community and privacy, social well being and shelter and protection against hostile physical forces and disturbances. In its indirect role housing serve us the are where an abundant supply of social relationship and services are accessible, such as places for social intercourse, education, recreation, sports, social welfare and health protecting services, shopping and transportation”3.

House plays an important role in shaping the density of people. It is not only shelter but also an asset and wealth of the human being. Housing besides satisfying one of the basic necessities, is an important economic activity and plays a significant role in the socio-psychological development of individual.

House as referred to in section 5(i)(iv) of wealth tax includes house, which is not habitable, is not a house. If a house was once habitable, but is later becomes inhabitable, it is still a house for this purpose.

Housing as a human need not only fulfills the basic need of the shelter but is also recognized as a productive activity making substantial contribution in the term of generating employment and wealth for the nation. With its multiplier effort on employment and economy housing has emerged as the most critical element in industrial
<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
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<tbody>
<tr>
<td>23 Dec. 1982</td>
<td>Government considers amending the existing Land Acquisition Act, which will allow payment of compensation to land owners at prevailing market rates.</td>
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<td>25 Sept. 1983</td>
<td>Task force of the planning commission on the shelter for urban poor and slum improvement suggests drastic change in orientation of housing boards.</td>
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<td>11 June 1984</td>
<td>Bharat Chamber of commerce suggests that housing be given status of a priority industry which is accepted by Industry Minister, New Delhi.</td>
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<td>April 1986</td>
<td>Great Eastern Shipping has second thoughts about stepping into the real estate business.</td>
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<td>March 1987</td>
<td>Confederation of Indian Industry suggests that financial institutions should provide finance for large housing projects.</td>
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<td>February 1988</td>
<td>HDFC received a loan of $250 million from the World Bank: Government does not award industry status to construction sector as it may create “more hurdles”.</td>
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<td>12 May 1988</td>
<td>National Housing Policy is announced. It contains a financial package for accelerating flow of funds into housing.</td>
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<td>9 July 1988</td>
<td>National Housing Bank established.</td>
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<td>January 1989</td>
<td>Government permits scheduled banks to refinance housing loans to the extent of 100 percent of the amount.</td>
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<td>1991</td>
<td>Transferable Development Rights (TDRS) are first conceived by Bombay Municipal Corporation to compensate private landowners whose property was taken over under the Development Control Rules for public purposes like building gardens, school and markets.</td>
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<tr>
<td>February 1993</td>
<td>A licensing authorities for housing and real estate companies called the Real Estate Development Council is being set up along the lines of crisil.</td>
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Real estate prices shoot up in Mumbai following a Central government decision to allow Non-Resident Indian (NRIs) and foreign companies to buy property.

HDFC and may fair housing, a Bombay-based builder, together market new ideas of using TDRS to build additional housing property.

National Housing Bank (NHB) announces Golden Jubilee Rural Housing Finance Scheme to provide a fillip to housing and construction activities in rural areas.

An action plan was drawn up by the government for construction of additional 20 lakh houses each year in accordance with the new Housing and Habitat Policy 1998.

Government announces national slum policy.

The National Slum Policy draft recommends bringing municipal services under the Consumer Protection Act, 1986.

Construction sector accorded industry status.

The Maharashtra Rent Control Act comes into effect.

Union Cabinet approves the introduction of the Delhi Apartment Ownership Bill 2000, with a provision to repeal the Delhi Apartment Ownership Act, 1986.

100 percent Foreign Direct Investment (FDI) has been permitted in the development of integrated townships.

Union Cabinet approves a Rs 2000 crore housing and sanitation scheme for the urban poor and slum dwellers across the country.

Reserve Bank of India (RBI) has increased the risk weight on housing loans, fully secured by mortgage of residential properties, extended by primary urban co-operative banks to individuals to 75% from 50%.

Foreign construction companies will be allowed to invest directly in construction sector. They can construct houses on a minimum area of 25 acres.
July 7, 2005  Haryana government reduced two percent on conveyance on sale in the case of purchase of immovable property by a woman as a sole owner and also where all joint holders are women. Also the stamp duty would be reduced by one percent in case of purchase of immovable property where a woman is a joint holder with a man.

1.2  Private Sector Involvement in Housing Sector:

To meet mammoth challenges in financial deficiencies, the private sector need to be brought in to assist the government in the development of infrastructure for the overall growth of the country. Depending on which option is used, private sector participation can lead to many benefits like large scale, injections of capital and greater efficiency in its use, technical and managerial expertise, improvement in operating efficiency, reduction in subsidies and increase responsiveness to consumer need and preferences.

From participation to partnership is the new mantra for the new models that are emerging. The success of the Bengal Ambuja Project a partnership between the West Bengal Housing Board and the Gujarat Ambuja Cement group has led to the setting up on other similar joint venture in the State.

1.3  Disguised form of Private Sector in Haryana

The Haryana joint development models in the case of Gurgaon and Faridabad township project is being done on fifty-fifty basis by private developers and Haryana Urban Development Authority (HUDA).

This leads one to hope that a new era of public and private sector partnership in urban land development has arrived, even though there are a number of issues that are still to be resolved. Primary among these pertains to the minimum size of private sector development, which is to be only on 30 acres of land (such land being scarce), delay in repeal of Urban Land Ceiling and Regulation Act and Amendments to Rent Control and Apartment Ownership Acts as well as the Master Plan, conversion of leasehold into free hold etc.

An alternative model to public sector monopoly has still to be developed for the nation. After examining various models of development in the country, I found that the Haryana model with suitable modifications to be the most for the nation. A
license under the Haryana Development and Regulation of Urban Area Act 1975, is given to a private developer, where he is to provide integrated urban — including social infrastructure for housing development, subject to compliance with the following conditions:

1. A minimum of 20 percent plots for economically weaker sections of society at highly subsidized rates.
2. Another 25 percent to be sold at no-profit-no-loss price.
3. Developers net profit not to exceed 15 percent of the project cost.
4. Developers to pay external development charge for provision of infrastructural facilities.

If the Haryana model is adopted after enactment of a suitable model legislation by the central government, it will be right multi-agency approach through involvement of public, private and co-operative agencies. This pattern will lead to stabilisation of land prices and rent, elimination of unauthorized construction and reduction in litigation with land owners, who will receive consideration at market rates in place of the present state acquisition of land at nominal rates.

Housing is however, a state subject and the central government would need an agency to propagate its policies regarding land, housing and legal regime. The newly constituted National Real Estate Development Council, with Hon’ble minister for urban development as its chief patron four government nominees including the Council President and two public sector enterprises as founder members, has come at the right time to give a boost to housing at the national and state level.

1.4 Housing Finance System in India

Housing is a primary need for everyone. But the majority of our population cannot afford even basic housing from their own financial sources without any external assistance by way of loans either from public institutions or from other private sources. Public institutions especially in the area of housing mostly depend on the budget allocations. The competition from other priority sectors such as agriculture, industry and defense prevents sufficient allocation for housing in our national budget thus making our people depend on their resources. The result is, a large part of our urban population are either unhoused or under-housed. Hence to shape cities and towns properly, the need for
a house finance intermediation capable of providing financial assistance to all the needy people is absolutely felt. In order to understand the part of the scenario of housing finance institutions, an attempt is made to study the housing finance institutions which mainly cater to middle and high income groups of urban population.

While in the development would, it is observed that most of the housing is financed through formal housing finance institutions, in developing country like India, the extent of formal housing finance institutions, in developing country like India, the extent of formal housing finance is quite limited estimated to be around 20 percent (Planning Commission, 2002). Most households thus depend on their saving or loans from employers, informal borrowings from friends and relatives are also often used to finance housing. It can be expected that as an economy modernises, its capital markets will grow and become more specialised with some development in housing finance.

But housing and non-housing capital have distinctively different needs and economic forces which merit attention. By and large housing requires long-term finance than industry. It also functions best when placed upon a revolving basis so that flow of borrowing and lending is continuous, providing the capacity to grow. The efficiency of savings institutions is important because it keeps the cost of borrowing down, but in a developing country, the costs of reaching households and tapping, the savings potential can be considerable. It may be necessary to establish a network of localized branches and to deploy outreach programmes in order to induce the saving habit. Savings schemes will have to be innovative among low income households.

The housing finance system in the country consists of 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 and salaried class. In the informal sector housing is financed mainly through household saving, 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, and the formal housing finance institutions.
Financing of housing investment in India by the formal sector is extremely meagre. The formal sector includes budgetary allocations of central and state governments, financial institutions like GIC, LIC, UTI, commercial banks and provident fund, public sector institutions like HUDCO, the state-level housing co-operating societies and private sector companies like HDFC.

The formal sector institutions largely mobilise resources from general financial institutions leading to complex inter-institutional flows. Schematic representation of formal housing finance intermediation is presented in Figure 1. Since 1970, the financial system has become quite widespread.

**Figure 1 : Formal Housing Finance Intermediation**
In India, the following type of institutions provide long-term finance for housing:

- Commercial banks
- Co-operative banks
- Regional rural banks
- Agriculture and Rural Development banks
- General Insurance Company
- Housing Finance Companies (HFCs) and
- Co-operative Housing Finance Societies (CHFS)

Housing Finance Companies (HFCs) are basically non-banking financial companies. A non-banking finance company is classified as a housing finance company, if providing housing finance, is the principal object of the company or if there is more one principal object as per the Memorandum and Article Association, housing finance should from a major share of the company’s asset pattern as revealed by its latest balance sheet.

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 loans sanctioned by all these companies put together. These 29 companies have 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 and Faridabad, Birla Homes in Faridabad and Panchkula, PNB Housing Finance in Gurgaon, LIC Housing Finance in Karnal, Gurgaon and Faridabad, Can Finance Homes in Gurgaon and Faridabad.

1.5 National Housing Bank and Housing Finance Companies

a. Establishment of National Housing Bank:

   National Housing Bank (NHB) was in recognition of the need for developing a net work of specialized housing finance institutions in the country, that National Housing Bank was established in July 1988 under an Act of Parliament, viz. the National Housing Bank Act, 1987, to function as an apex bank, on the lines of the Industrial Development Bank of India (IDBI) and the National Bank for Agricultural and Rural Development (NABARD). The act envisages that NHB will remain a wholly owned subsidiary of the Reserve Bank of India.

   The national housing bank was born with a commitment to fulfil the housing needs of the Nation. Since inception, NHB has been pursuing the objective of
developing a sound and efficient housing finance system in the country. NHB’s mission includes establishing and developing the institutional infrastructure through an ongoing system of supervision and support. The Bank’s financing role has had a positive impact on the flow of funds to the housing sector.

Among the important activities undertaken by the Bank are the formulation of guidelines for promotion of housing finance companies (HFCs), equity participation in HFCs and building material industries, formulation of a nationwide loan linked saving scheme (Home loan account scheme) which caters to all segments of the population and offering training programmes for HFCs. The regulatory role of the bank has helped in building the investor’s confidence in the HFCs.

NHB extends financial assistance to a wide range of institutions at the retail level through the refinance mechanism. Since recent times, it has also undertaken direct financing of housing projects. Recognizing the need to provide housing for women, the bank has formulated a special scheme for finding projects exclusively for women belonging to the weaker section of the society.

Recently, NHB also launched the Golden Jubilee Rural Housing Scheme to celebrate fifty years of India’s independence. Under this scheme NHB, will refinance loans extended by various primary lending agencies such as public sector commercial banks, housing finance companies, agricultural and rural development banks, apex co-operative housing finance and regional rural banks for construction, purchase and improvement/upgradation of houses in freehold land in rural areas.

With flexible and responsive policy measures, the bank is committed to the growth of the Indian Housing sector.

b. **Main function of NHB**

The act enjoins upon NHB to operate “business principles with due regard to public interest”. NHB is the principal agency to promote housing finance institutions, at the regional and local levels and to provide financial and other support to such institutions connected with housing and human settlements. The act, among other things, empowers NHB to:
(i) Issue direction and provide guidelines to housing finance institutions to ensure their promotions, management and growth on sound lines.

(ii) Make loans and advances and render any other form of financial assistance to scheduled banks and housing finance institutions:

(iii) Formulate schemes for the purpose of mobilization of resources and extension of credit for housing.

(iv) Formulate schemes for weaker section of the society, which may be subsidized by the central or state governments or others.

(v) Form, promote and manage subsidiaries for carrying out functions under the act.

(vi) Organize training programmes, seminars, symposia on matters relating to housing.

(vii) Co-ordinate with various agencies in the housing sector and

(viii) Subscribe to stock, shares, bonds and securities of every other description.

c. **NHB Guidelines for Housing Finance Companies**

NHB has been entrusted with responsibility of promotion and development of housing finance institutions on sound lines. It has, in consequence, evolved guidelines for promotions of housing finance companies in private and joint sector, compliance with which is a precondition for eligibility for refinance from NHB. Resources of HFCs should appropriately come mainly through mobilization of household savings which would hinge on the public confidence an HFCs is able to inspire which, in turn, would depend on the size and character of its equity base, besides the quality of its management and the financial discipline observed by it. Accordingly, the guidelines incorporate the following:

(i) HFC should be a public limited company and normally have a minimum paid up capital of Rs. 1 crore.

(ii) It should function only as a financial institution and should not engage itself in any trading or construction activities and should not have any connection with any company engaged in construction activity.
(iii) There should be at least two directors from scheduled banks or public financial institutions failing which NHB reserves the right to nominate two directors.

(iv) Prior approvals of NHB should be obtained for appointment of auditors.

(v) Seventy five percent of the total lending should be by way of long term housing loans (to justify the tax concessions given to HCFs).

1.6 Importance of Study

The problems of housing may differ from person to person. From the point of view of householders, it is nothing but the possibility of getting loans at a reasonable time, for government officials it is nothing but the declaration of public housing programme. For the Ministry of Finance and Banks, the problems is to maintain the confidence of public in the housing financial system. How to expand the sources of finance for housing is the problem for the managers of the housing banks and how to generate long-term loans is the problem of housing for the capital market.

Of late, the government and organized private sector housing agencies have also advised their own housing programme depending upon the borrower's requirements. So the present study does necessarily analyze the extent of loan sanctioned and distributed by the financial institutions to meet the financial requirements of the borrowers.

The government has provided sizable quantum of funds as loans for construction of housing. But the borrowers in Haryana encounter many problems in the course of their efforts to get loans from these institutions. Many of the members of these financial institutions have felt that the procedures prescribed in getting loan are cumbersome.

The present study is a critical analysis of the performance and approaches of housing finance institutions. It is also attempted to know the level of satisfaction of borrowers, relating to the rate of interest, amount of repayment under EMI, besides identifying the problems of the borrowers and their opinions. This study aims at examining the functioning and development programmes of the selected housing finance institutions.

As such the study is of great importance from the point of view of both housing finance institutions and the borrowers.
1.7 Statement of the Problem

Providing affordable housing to the teeming millions in India has been a formidable challenge baffling planners, bureaucrats, architects, engineers and social scientists. It is the rapid pace of urbanization coupled with large scale immigration of destitutes from rural/backward areas and smaller towns has brought to the fore, the housing problem especially in big cities. In these cities we find imbalances in the location of people and jobs. The non-availability of land and financial assistance with good access to employment opportunities is the central feature of housing problem in urban areas.

As it has already been noted, Habitat II National Report estimates that the problem of housing is more serious in urban areas. This is true for our state also, as per the 2001 census, the estimated housing shortage in Haryana in urban areas is 1.53 lakhs as against 3.97 lakh in rural areas. During the 10th plan an investment required of Rs. 432 crores to meet the housing shortage in Haryana as per 58th Round National Sample Organization Survey (Government of India). The 9th Plan Working Group (1992) on housing has estimated the investment requirement for housing in urban areas including the deficit at Rs. 151000 crores. In addition to this, urban infrastructure required to support housing sector would need an investment of the order of Rs. 250000 crores in the next 10 years. Thus, the financial requirement for housing in urban areas are phenomenally large.

The 10th Five Year Plan (2002-07) has estimated the investment on housing requirement on public sector institutions would be around Rs. 415000 crores. Apart from this, substantial contribution from private players would be required to tackle the growing housing shortage. The 10th Plan estimated the urban housing shortage at 8.89 million dwelling units in 2002. Further, the total number of houses that would be required cumulatively during the 10th Plan periods estimated at 22.44 million dwelling units.

Provision of this level of financial requirement will mean absorption 10 to 12 percent of domestic savings. It is important to note that the formal sector role will still be limited in that it will be absorbed only about 25 percent of the total requirement. However, in recent years some public sector banks and financial institutions have promoted separate housing finance companies (in public and private sector) which specialize in providing finance for construction/purchase of new houses and upgradation
housing stock particular in urban areas. An in depth study of housing finance institutions which primarily cater to salaried class people and income tax assesses can provide scope for bringing in to limelight the various issues related to housing finance. Hence, the present study has been undertaken.

1.8 Review of Literature

Though there are innumerable studies on infrastructure and industrialization or even on housing and urban development. The study of housing finance and urban development with respect to industrialization and its structure changes in particular as a special research problem, is very indispensable in present context of Indian economy.

There are many studies on housing sector. Among such important studies, the study made by Baku H. Dholakia\(^6\) in his research report says that housing expenditure has strong inter industry linkages in Indian economy. An increase in housing investment would generate significant growth impulses in the economy which would be transmitted to several sectors and hence suggests housing should receive a high priority in the allocation of scarce national resources. Because though its backward and forward linkages with the rest of the economy, it would be instrumental in stimulating and accelerating the pace of economic growth.

M. Sivashanmugan\(^7\) examines that the existing housing finance institutions do not recognize household sector saving for their resource base, which contributes about 74 percent of total domestic savings. But ironically they depend on either budget allocations or borrowing from the other financial institutions. The inputs are increased cost of finance to ultimate beneficiaries on one hand and irregular supply of funds to the housing agencies and over dependence on other financial agencies on the other hand.

Nasser Munjee\(^8\) states that the mechanisms to link formal housing finance institutions to informal institutions working at micro level should be explored so that relevant institutions serve their constituent while at the same time being part of network of specialized institutions.

K.S.R.N. Sharma\(^9\) observes that the housing finance system to meet the fast growing housing demand could not be accomplished in isolation from the efforts for
achieving an orderly urban development. This makes it imperative that actions on various related fronts such as land development, improvement of construction technologies, general expansion of capital market, besides promotion of housing finance intermediaries should all be undertaken in a concerted manner.

I. Chaudhuri\textsuperscript{10} says that it is unfortunate that a viable and self reliant housing finance system in India is still to be developed. Over 90 percent of the housing finance needs are today met through arrangements in diverse parts of the country. The structure of the formal housing finance market is small as a large amount of resources are being diverted and invested in non-productive sector which could, if the right services are made available through housing finance intermediaries to potential depositors, be channelized into the housing sector.

M. Shivarama Krishna\textsuperscript{11} says that an organized housing finance system can operate only if people can afford to buy houses and that there are socially oriented financial institutions with a development outlook to help them fill the gap between their saving and the cost of the house.

Patrick Wakely\textsuperscript{12} observes that government invention in low income urban housing has been undergoing a process of change characterized by the withdrawal a public sector agencies from the construction and management of completed dwellings. This is being replaced by policies and programmes for the provision of supports that enable individuals, urban communities and the private sector to play a more active role in the production of housing. He concludes that aid to the housing sector can have a mitigating effect on the worst extremes of urban poverty and provide security for those hardest hit by the austerity measures about by macro economic adjustment.

Stephen Malpezzi\textsuperscript{13} observes that in many developing countries the housing market functions poorly because of problems in factor markets and a poor regulatory framework. Even without considering externalities housing investment is insufficient. The required response is not necessarily more public sector expenditure to build houses but public action (including, but not limited, some expenditure) to improve the functioning of land and finance markets, to provide infrastructure and to provide a proper regulatory framework.
Cedric Pugh\textsuperscript{14} opinions that Indian economy is much regulated and this regulation includes public sector interest rates. The prospective pattern of regulation could frustrate any development of a secondary mortgage market. Regulations cause friction in development of capital market and fragmentation opens up opportunities for political and administrative conflict in the formulation and implementation of housing policy.

Horst Tomann\textsuperscript{15} reveals that housing specific savings have been a major instrument of housing finance for owner occupiers. They gained increasing importance after World War II, stimulated by housing savings subsidy schemes. Housing construction activity in West Germany is mainly influenced by specialist housing banks (Hypothekenbanken) communal banks (Sparkassen) and institutions (Bausparkassen). The structure of finance is different for rented housing (mainly bank loans and insurance company loans) and owner-occupation (mainly building loan contracts).

Duncan Macknanan and Kenneth Gibb\textsuperscript{16} observes that the quantity and cost of mortgage credit are fundamental to the demand for housing. Whilst building societies and banks in Britain tended to restrict loans to 75 to 80 percent of purchase prices prior to the 1980s, liberalization has raised this proportion to above 90 percent, thus increasing consumer exposure to mortgage rate rises. The crucial credit variable is however, the interest rate; specifically the real interest rate, since mortgage is denominated in normal terms.

Dimitris Emmanuelle\textsuperscript{17} says that the liberalization measures in Greece tremendous problems of adjustment for the mortgage banks and let to major shifts in the flow of funds as well as the cost of loans. They affected to a lesser extent the more specialized institutions such as postal saving and loans consignations funds, which offered loan to employees in the public sector. Nevertheless from the resulting difficulties in getting easy subsidized funding and the new rules for healthy financing.

William G Grigsby\textsuperscript{18} describes four major transformations in the US mortgage finance industry since the turn of the century. The first occurred during 1930s when the federal government created a superstructure of institutions designed to build permanent stability in to the system and to create a highly liquid mortgage security. The second occurred in the 1960s when private mortgage insurance pushed federal mortgage
insurance almost out of existence and when congress greatly strengthened secondary market institutions. The third has occurred since 1970, with the creation of sophisticated forms of mortgage backed securities that are much more attractive to investors than insured mortgages themselves. There has been a fourth major transformation by 1989, when inflation together with other economic shocks had brought the savings and loan industry, the major sector in the entire system to its knees. A large number of saving and loan associations became insolvent and their number increased as a consequence of imprudent and improper investment decisions that the associations made an attempt to extricate themselves. He further observes that in any event, out of the disaster are emerging, changes that will become the ingredients of yet another transformation of the industry. The Federal Home Loan Bank Board (FHBB) is recognized as the office of Thrift Supervisor. He also feels that such a large proportion of savings and loan association now engaged in activities unrelated to housing, the federal system of saving and loan associations may disappear.

Gavin A. Wood\textsuperscript{19} observes that portfolio and interest rate deregulation in Australia (since 1986) intensified the competitive pressures on building societies and reserved the growth in their activities which had been rapid in the 1960s and 1970s. In response to these competitive pressures there has been a wave merger activity between building societies and conversion to saving bank status in order to take advantage of the more liberalized regulatory regime pertaining to saving banks.

G.C. Baveja\textsuperscript{20} feels that the government alone cannot cope with housing problem; nor can private efforts alone can suffice, what is required is a coordinated approach by public and private sector including cooperatives for accelerating housing investment through development of a sound and healthy housing finance system.

Robert-Jan Baken and Peer Smets\textsuperscript{21} concentrates on how formal and informal housing finance relate to the housing conditions of the weaker section households. They argued that the form of house construction and the financial arrangements which are part of public housing programmes do not match household revival strategies and that the terms and conditions of informal housing finance are generally more adequate.
Gareth A Jones and Kavita Datta\textsuperscript{22} reveal that households in developing countries face a series of problems in attempting access to finance to resolve their housing needs. Despite enormous absolute housing deficits and the need to improve the existing stock, housing finance often represents less than 10 percent of all financial transactions.

Tara S. Nair\textsuperscript{23} says that by stimulating household savings in general or through shelter linked programmes a balance can ideally be achieved between three conflicting objectives viz., (i) affordability, as seen by households, (ii) viability from the angle of financial institutions and (iii) mobilization of requisites resources from the perspective of the national economy.

Bruce Ferguson\textsuperscript{24} examines how micro finance potentially offers a key to help the low/moderate income majority meet their shelter needs. His article presents the work of the Bolivian NGO PROA as a successful case of micro finance and draws lesson about the possible expansion of micro finance in Africa, Asia and Latin America.

Lai V.D.\textsuperscript{25} observes that Society for Development Studies (SDS) that during last four and a half decades, some five to six million people have been added to urban India every year, which is more than the total urban population in 1997 of many cities across the world. India is thus one of the largest urban system, with 218 million people in 1991 and a projection population of 289 million by 2001 and 618 million population by 2028. From 23 metrocities in 1991, the number is likely to cross 40 by 2001. Urban dynamics is also reflected in the increasing proportion of the urban population. From 10 to 12 percent during the first three decades to 13.9 percent in 1941 and then jumping to 17.3 percent in 1951. From 19.9 percent 1971 it claimed to 25.7 percent in 1991. Planning commissions technical group on urban perspective and policies estimated the proportion to be 31 percent in 1996 and projected it to 38 percent by 2007; alternate projection made by society for Development Studies in Habitat II. The National Report of Government of India has projected the urban population at 36.6 percent by 2011 and 40.0 percent by 2021.

Nathan Narendra\textsuperscript{26} finds that home has always been sweet home. And now, home loan too is properly at their sweetest best. Buyers, who have been tracking the descending graph of loan rates with much glee for well high four years now, have every
reason to feel smng. From 16.5 to 18 percent band fours year ago, interest rates are now low as 9.5 percent. The subline lending climate brings with it a range of goodies. Apart from rock bottom interest rates, housing finance companies now offer doorstep service: they are prepared to reduce or waive processing and administrative fee: they offer sundry freebies and welcome news, most of them have standardized the calculation of interest rates.

Shenoy G Umesh\textsuperscript{27} observes that big players are increasing their market share as is evident from the fact that the four major players in housing finance industry (viz. HDFC, LICHFL, SBI and ICICI) together accounted for a share of 83% in 2001-02.

\textbf{Market Share}

\begin{tabular}{|l|c|c|c|c|}
\hline
\textbf{Agency} & \textbf{1998-99} & \textbf{1999-00} & \textbf{2000-01} & \textbf{2001-C.} \\
\hline
\textbf{Housing Finance Companies} & & & & \\
HDFC & 57 & 56 & 52 & 46 \\
LICHF & 16 & 15.5 & 15 & 16 \\
CanFinHomes & 2 & 3 & 2 & 3 \\
Other HFCs & 11 & 3.5 & 2 & 2 \\
\hline
\textbf{Banks} & & & & \\
SBI & 11 & 15 & 14 & 15 \\
ICICI & - & 1 & 6 & 5.5 \\
BOB & 2 & 4 & 6 & 5.5 \\
Corporation & - & 1 & 2 & 4 \\
Other Banks & 1 & 1 & 1 & 3 \\
\hline
\end{tabular}

S.K. Sharma\textsuperscript{28} describes housing is a basic human need. A reasonable dwelling is far beyond the means of a majority subsides of the family living in rural India. Over 30 to 40 million families are estimated to be houseless in rural areas. Notwithstanding the numerous government subsidized programmes, the number of houseless has been exponentially increasing during the past decades. This is largely due to endemic rural poverty, mounting growth of population and depletion of the resource base. Lack of means of livelihood in rural areas is lending to large scale poverty driven migration to urban centres. Urban centres are, in turn, becoming congested, polluted and financially unsustainable.
Two major initiative are needed to effectively deal with rural housing. The first is ongoing research and development of cost effective building material and building system using locally available materials and development of entrepreneurship in rural areas in their production and application. The second is strengthening the rural economy to make villages self-reliant.

Kiran Wadhva says housing sector has been the recipient of large number of fiscal incentives in the past few budgets. The motivation for continued sops to this sector can be traced to two factors; namely, (i) massive housing shortage and (ii) the perception that investment in housing can kickstart the economy. The latter has been an important element in the prebudget memoranda presented by various chambers of commerce, association of private builders and representative bodies of housing finance companies. The incentives seem to have had a salutary effect on the housing sector. There is apprehension that the various tax incentives may be withdrawn as a result of the recommendation of the Task Force on District Taxes (TFDT). The TFDT has recommended doing away with a large number of exemption including those related to housing.

Deepak Parekh says if India wants to grow to be a developed country, it will have to accelerate its construction activity by building more houses. Look at China, where the construction boom is on. In India, without a clear policy, people are unwilling to take decisions, hence there is a slowdown. The government needs to make housing a high priority. Twenty five years ago, the Planning Commission and the government looked at housing as inflationary. Housing then was not considered as a necessity. Such was the case, that housing got a three line mention in the plan document. Over the years, this sector has witnessed many changes. The government has recognized its importance as an employment generator with a huge multiplier effect.

Kanika Basu concentrates that the public/private housing finance companies would redefine their role and move away from their traditional approach to housing finance, adopt a more flexible approach and modify the present system of collateral, assessment of repayment capacity and system of creating mortgages. Although the housing policy calls for a redefined role of HFIs to access housing finance to the poor, the task at hand is extremely complex. It is complex because more than 90% of the
shortage in housing is from the poor and low income category. The implication is that the people who are in need of housing have very limited capacity to pay. Most of them belong to the unorganized or informal sector that has the associated problem of having low income, undocumented income and seasonal income. According to the India Human Development Report prepared by NCAER 57.74% of the total households in India, have an annual income of not more than Rs. 20,000. This restricts (prohibits) their access to formal housing finance the most crucial input in the housing sector.

Srinivasan G. describes housing sector ranks third among the 14 major sectors of the economy in terms of the direct, indirect and induced effect on all sectors of the economy. Though India has had a chequered planned economic development since independence, the housing sector did not get priority attention until the Eight Plan. The working group on housing for the Tenth Plan has pertinently pointed out that around 90 percent of housing shortage in the country pertains to the weaker sections. Hence there is a need to increase the supply of affordable housing to the economically weaker section and the low income category through a proper programme of funding assistance and provision of support services. Even the National Agenda for Governance has said that out of proposed construction of 20 lakh dwelling every year, seven lakh houses would need to be constructed in urban areas and 13 lakhs in rural areas. The stress on seven lakhs is naturally on economically weaker section and low income group housing.

Manoj P.K. observes with the growing need for housing, housing finance industry has emerged as a high growth sector in the Indian economy. Further, all major economic indicators are showing a sturdy growth of this industry segment; as is evident from an average growth rate of 28% during the last five years. In coming years, the same is estimated to be still higher, in the order of about 35%. The soft interest rate regime followed by government resulting in constant lowering of interest rates, entry of many new players particularly that of the commercial banks in to the housing finance industry, very thin spreads because of frequent rate cuts adopted by the players in the industry, reduced credit off-take to industrial sector because of economic recession and also availability of other source of finance to good corporate, insignificant product
differentiation among the competing firms etc have made competition in housing finance industry very stiff.

Tim Forsyth describes in 2001, more than 900 million (31.6 percent) of the world total urban population lived in housing conditions defined as slums. They are unevenly distributed 43 percent are in developing regions, although 78.2 percent are in the least developed countries. In absolute numbers most slum dwellers are located in Asia (554 million in 2001), 187 million in Africa and 128 million in Latin America and Caribbean. During 1990s, informal households increased by an estimated 36 percent because slum improvements and formal construction progress failed to keep up with population growth. Projections indicate that global number of slum dwellers will double to 2 billion within 30 years. Every day the urban population of developing countries increased by more than 170000 people, requiring an additional 30000 housing units (UN – Habitat – 2003).

Pankaj Anup & Wadhwa Puneet observes just as home buyers in the waiting were celebrating that the tax breaks on housing loan had been left untouched, the bad news began to sink in. Tucked away among the announcement was a decision to bring any housing construction with more than 12 dwelling units under the service tax net. This means a 10 percent tax and 2 percent education cess on top of that. According to announcement, the tax will not only cover independent stalite townships that have more than 12 houses spread horizontally, but also apartment complexes having more than 12 flats. The service tax will make housing much more inaccessible to the average man. The concern is that this may compel large number of potential home buyers to postpone the decision to buy.

Deepak Parekh observes India’s housing shortage stands at 20 million units. At least a hundred million people are living in very bad houses or on the streets. The recent decision to allow 100 percent Foreign Direct Investment (FDI) under the automatic route in townships, housing, built-up infrastructure, construction and development projects will boost construction, catalyse investment, usher in new technology and improve quality of buildings. But the path to implementation will be critical.
1.9 **Objective of the Study:**

The specific objectives of the study are as follows:

1. To examine the quantum of the problem of housing in the country in general and State of Haryana in particular.
2. To assess the performance of financial and operational achievement of selected housing finance companies.
3. To evaluate the cost of borrowing from selected housing finance companies.
4. To elicit the perceptions and opinions of borrowers about the house loan provided by selected housing finance companies with a view to identify their problems.
5. To suggest policy measure to overcome the problems.

1.10 **Hypotheses**

The specific hypotheses of the study are as follows:

1. The performance of sample housing finance companies during the last decade is not satisfactory.
2. The cost of borrowing from two different housing finance institutions varies and accordingly the burden on borrowers differs.
3. The perception about the house loan provided by sample housing finance companies differs across the two income group of borrowers.

1.11 **Research Methodology**

A research methodology is simply a framework or a plan for a study that is used as a guide in collecting and analyzing the data. It is the blueprint that is followed in completing the study. Thus good research methodology ensures the completion of project efficiency and effectively. Since there are many aspects of research methodology so the line of action is to be chosen from a variety of alternatives. The choice of suitable method can be arrived at through the objective assessment and comparison of various competing alternatives.

Research methodology used in the present study is summarized as given below:

(a) **Research Design:**

Research design provides the detailed blueprint for carrying out the research project and involves both strategic and tactical research design decision.
The strategic decision centres on the choice of research approach and the means for obtaining information. Tactical research design decisions include the specific decisions need to develop the research approach to the point that it can be implemented.

Research design has broadly been classified into three categories:

(i) Exploratory design
(ii) Descriptive design
(iii) Casual design

Since a descriptive study, largely interprets already available information, make use of primary and secondary data and emphasis on analysis and interpretation of the existing information, hence no formal design can be established as the imagination of researcher is key factor in such studies.

(b) Sample Design:
In housing loan, the below mentioned institutions are the pioneer institutions:

(i) Housing Development Finance Corporation (HDFC)
(ii) LIC Housing Finance Ltd.
(iii) Can Fin Homes Ltd.
(iv) Other’s Borrowers Perceptions

These housing finance companies have been selected to highlight the satisfaction of the borrowers and the highest market share in percentage in term of annual loan disbursement.

1. The market share of Housing Development Finance Corporation (HDFC) in annual loan disbursement was 51 percent in 1998-99 and decreased to 46 percent in 2001-02 as shown review of literature No. 27. HDFC is the first largest housing finance company in India. HDFC was established to enhance residential housing stock and promote housing ownership. HDFC was incorporated in October 1977. The equity share of the company is 122 crores and market capital is 7723 crores of the company at present.

2. LIC Housing Finance Ltd. is the second largest housing finance company in India. The market share of LIC Housing Finance Ltd. was 16 percent in 2001-02. LIC Housing Finance Ltd. was promoted by Life Insurance Corporation. It is India’s
largest life insurance provider to provide long term housing finance to individuals and corporation for the purchase, construction, repair and renovation of new and existing flats and house. Today’s company was incorporated in 1989 and went public in 1994. The equity capital of company is Rs. 75 crores and market capital is Rs. 5400 crores at present.

3. Can Fin Homes is an affiliate to Canara Bank, established in 1987, with the Bank owing over 25 percent of the total share holding. HDFC and UTI are its other major promoters with share holding about 20 percent and 19 percent respectively. The company’s network of branches spans 43 office in India.

(c) Sources of Data:
This study involves the collection and critical examination of primary and secondary data.

(i) Secondary data: Secondary data pertaining to housing stock, housing shortage, investment on housing etc. were collected from Government reports, census of India, articles published in reputed journals, newspapers and magazines etc. Further the data pertaining to housing finance institutions were collected from annual reports as well as office record of respective housing finance companies.

(ii) Primary Data: Primary data for the study were collected from the sample borrowers of sample housing finance companies, through personal interview method and questionnaire. Some general informations and data regarding housing finance companies were also collected by interviewing managers/officers of respective housing finance companies through structure questionnaire/schedules.

(d) Pattern of Analysis:
The collected data and information were processed and analyzed by using simple statistical tools like ratios, percentage, average. Chi-square test as well as rank collection technique were employed.

Performance of housing finance companies were assessed through various technique such as liquidity ratios and profitability ratios and efficiency ratios. Some specific profitability ratios are as follows:
(i) Liquidity ratios: Current ratio, debt equity ratio, debt to total fund ratio, interest coverage ratio.

(ii) Profitability and efficiency ratios: Rate of return on capital employed, return on assets and return on shareholders equity.

The ratios of rate of return for the purpose of analysis was computed in three ways viz (i) return on capital employed (ii) return on total assets (iii) return on shareholders equity. The first two ratios of rate of return highlight how efficiently the financial resources are deployed. A high ratio is an indication of a better utilization of available funds. The rate of return on shareholders equity indicates the return on funds provided by owners.

Efficiency standards relate particularly to providing good client service and to measure the utilization of funds by financial institutions. Efficiency standards used in the study is the utilization of funds measured as a ratio of disbursement to sanction loan.

Housing affordability has been measured by way of ratio of housing price to income across the various occupation, income and age groups. Low ratio indicates high affordability and vice-versa.

Chi-square \((\chi^2)\) test was used to know the relation between housing loan by way line of credit (LOC) and income/age of borrowers.

Rank correlation has been used to know the perception of borrowers belonging two income groups about the housing loan provided by sample housing finance companies.

1.12 Limitation of Study:

The study depends upon both primary and secondary data. Primary data may have some inaccuracies as sample borrowers might have exaggerated information or biased while giving information.

There may be biasness of institutions in providing the secondary data and may not be ready to reveal their secrecy in the name of efficiency. The nature of information and data is confidential and access to primary data in their records is not easily possible. Certain useful informations like the number of applications received/approved over the period etc. could not be obtained and such questions have to
be dropped at the stage of testing the schedule itself.

This study is also limited to selected three housing finance companies viz. HDFC Ltd., LIC Housing Finance Limited and Can Fin Homes Ltd.

Haryana is selected as a study area. Due to millennium plus cities status and large network, medium and small sized industries, location of wide network of education and professional institutions, large volume of trade and commerce and due to the location of number of central and state government offices, has been able to attract large number of housing finance institutions, operating in private and public and joint sector. Haryana has total population 21082989 and it’s total area is 44212 sq. km.

Therefore the data of last ten years w.e.f. 1996-97 to 2005-06 was taken as sample for present study.

Report on trend and progress on housing in India for June 2005, June 2006 of the National Housing Bank, Government of India are not available.

Despite these limitations, the researcher feels that data and information that have been collected, analyzed and presented are sufficient enough to meet the objective of the study.

1.13 Arrangement of Chapters

In view of the theme of the thesis, the study has been divided in to six chapters.

- The first chapter covers, introduction, housing problem, importance of study, statement of problem, review of literature, objectives of study and research methodology.
- The second chapter contains housing stock, housing shortage, government policy initiative under five year plans, investment in housing in five year plans, and recent housing policy.
- The third chapter includes the performance of selected housing finance companies.
- The fourth chapter deals with evaluating the cost of borrowing from selected housing finance companies.
- The fifth chapter attempts the perception of borrowers about housing loan provided by selected housing finance companies.
- The sixth chapter comprises of summary of finding and suggestions.
References


