CHAPTER I

Introduction
CHAPTER-I

INTRODUCTION

One of the major problems of demographic segmentation of consumers is its lack of "richness", in describing consumers for market segmentation and strategy development. It lacks colour, texture, and dimensionality when describing consumers and it often needs to be supplemented by something that fills in the bare statistical picture. Consequently, many firms are looking for a better way to define markets. One of the newest, most exciting and promising approaches to selecting target market is "life style" and 'Psychographic Segmentation'.

The term 'life style' is not new, but its application to marketing has been rather recent. Alfred Adler coined the phrase "Style of life" over 50 years ago to refer to the goal a person shape for himself, and the ways he uses to reach it. From general perspective, life style can be viewed as a unique pattern of living which influences and is reflected by one's consumption behaviour.
The Technique of life style segmentation

Life style – segmentation research measures

1. how people spend their time engaging in activities,

2. what is of most interest (or) importance to them in their immediate surroundings and

3. their opinions and views about themselves and the world around them.

Together, these three areas are generally referred to as Activities, Interests and Opinions (or) simply AIOs. Table 1.01 indicates the lifestyle dimensions (particularly AIOs) that may be investigated among consumers.²
### Table 1.01

**Life style Dimensions**

<table>
<thead>
<tr>
<th>Activities</th>
<th>Interests</th>
<th>Opinions</th>
<th>Demographic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work</td>
<td>Family</td>
<td>Themselves</td>
<td>Age</td>
</tr>
<tr>
<td>Hobbies</td>
<td>Home</td>
<td>Social issues</td>
<td>Education</td>
</tr>
<tr>
<td>Social events</td>
<td>Job</td>
<td>Policies</td>
<td>Income</td>
</tr>
<tr>
<td>Vacation</td>
<td>Community</td>
<td>Business</td>
<td>Occupation</td>
</tr>
<tr>
<td>Entertainment</td>
<td>Recreation</td>
<td>Economics</td>
<td>Family size</td>
</tr>
<tr>
<td>Club membership</td>
<td>Fashion</td>
<td>Education</td>
<td>Dwelling</td>
</tr>
<tr>
<td>Community</td>
<td>Food</td>
<td>Products</td>
<td>Geography</td>
</tr>
<tr>
<td>Shopping</td>
<td>Media</td>
<td>Future</td>
<td>City size</td>
</tr>
<tr>
<td>Sports</td>
<td>Achievements</td>
<td>Culture</td>
<td>Stage in life cycle</td>
</tr>
</tbody>
</table>

**Own House- Dream of Middle Class**

Housing is one of the primary human needs and is next in importance to food and clothing. A house is not only a shelter to protect the human beings from vagaries of weather but also a workshop where
human efforts are prepared for constructive roles in future. The need of housing in India has been growing at a phenomenal pace over the years.

The problem of housing shortage grows at alarming proportions in India with the rapid pace of increase in population, urbanisation, changing family structure, rising per capita income etc. The 10th plan has estimated the urban housing shortage at the level of 8.89 million dwelling units and the cumulative number of houses required during the plan period as 22.44 million units. The total investment required for the above is estimated at the level of Rs. 4,15,000 crs and such a huge amount cannot be raised by the central and state governments alone. Rather, active private sector participation is very much essential for achieving this goal at least partly.

As a result of the on going economic deregulation measures of the Government particularly those in the financial and banking sector, there have been marked changes in the housing finance system in India. These are characterized by cut-throat competition particularly after the entry of commercial banks in housing finance arena, gradual fall in the interest rates which have almost halved over the last one decade, unprecented
growth in the housing loan market etc. The above developments have resulted in better availability of housing loans, better customer service from the industry players because of competitive pressures and have also made housing loans more affordable to the public.

However, along with these welcome features, there has been many challenges and increase in risks which include inter-alia–dilution in due negligence, very flexible/liberal norms, terms and conditions etc; which in turn are prejudicial to the interests of the banking system. This has forced the RBI to express its concern to the banks over dilution in security norms and rapid growth in their housing loan portfolio.

**Growth and Development of Indian Housing Finance System.**

**Emergence of National Housing Bank**

Recognizing the underlying significance of housing in a developing country like India, the various Government at the center have been giving utmost priority to the housing sector from time. The governmental efforts towards the development of a sound regulatory mechanism for Housing finance in India can be traced back in 1987 when the government came out with a national housing policy. As per one of
the directions of the above policy, the National Housing Bank Act was enacted by parliament in 1987. The national Housing Bank (NIIB) was established on 9th July 1988 under the above Act, to function as a principal agency to promote Housing Finance Institutions and to provide financial and other support to such institutions. The Act, inter alia, empowers NHB to

i. Issue directions to housing finance institutions to ensure their growth on sound lines

ii. Make loans and advances and render any other form of financial assistance to scheduled banks and housing finance institutions or to any authority established by or under any central, state or Provincial Act and engaged in slum improvement and

iii. Formulate schemes for the purpose of mobilization of resources and extension of credit for housing. The functions of NHB can be understood from its primary objectives which include
1. Promotion of sound, healthy, viable and cost effective housing finance system to cater to all segments of the population and the integration of the housing finance system with the overall financial system.

2. Promotion of a network of dedicated housing finance institution to adequately serve various regions and different income groups.

3. Augmenting resources for the sector and channelling them for housing.

4. Making housing credit more affordable.

5. Regulation of the activities of housing finance companies based on regulatory and supervisory authority derived under the Act, etc.

NHB functions as multi-functional development finance institution (DFI) in the housing sector and its activities include.

1. Promotion and development of housing finance institutions as well as their regulation and supervision.

2. Providing refinance assistance to various retail lending institutions like commercial banks, housing finance
companies, co-operative banks etc. and sloe direct lending to public housing, and slum development projects.

3. Rural housing etc. The NHB has introduced various scheme over the years, like Loan account scheme, Scheme for Rural Housing, the Refinance scheme for the housing finance rendered by the banking sector, Golden Jubilee Rural Housing Finance scheme (GJRHF) etc, The most prominent scheme presently offered being Golden Jubilee.

Rural Housing Finance Scheme (GJRHF) launched in 1997. The target under GJRHF for the current fiscal is 2,50,000 dwelling units.

Housing Finance Companies ("HFCs" in short) are required to obtain certificate of registration under Sec. 29A of NHB Act to carry on the business of housing finance. Accordingly, at present, there are 25 HFCs which have been granted Certificate of registration by NHB, which can carry on the business of housing finance and also can accept deposits from the public, after complying with the relevant NHB guidelines. The prominent among these HFCs include HDFC (the market leaser and the pioneer HFC in India), LIC Housing Finance Ltd. (second largest HFC),
ICICI Homes Ltd., Canfin Homes Ltd. (CFHL) etc. Another set of 22 HFCs have been granted certificates of registration by NHB, but they are not allowed to accept public deposits. Of late, Banks have evinced keen interest in housing finance portfolio and their share in housing loan pie is fast increasing. The most dynamic players among them in housing finance business include the SBI, ICICI Bank, etc.

**Economic Deregulation and its impact on the Housing Finance industry**

With the emergence of NHB as mentioned above, the organized housing finance industry in India used to be dominated by the specialized housing finance institutions (i.e, Housing finance Companies, HFCs in short) regulated by NHB; and the rote or commercial banks, co-operative banks, agricultural & rural development banks etc., was secondary. However, the economic liberalization and globalisation measures initiated by Government of India during the early nineties, brought about sweeping changes in the Indian financial sector.
The different Governments at the Centre have vigorously continued the economic reform process. As a result of these deregulation measures, the demarcation between banks and financial institutions has been fast vanishing over the years. Further, in pursuance of National Housing Policy of Central Government, RBI has been facilitating the flow of credit to Housing Sector. The current focus of RBI's regulation is to ensure orderly growth of housing loans portfolio of banks. This has resulted in banks entering housing finance business more actively, thus posing threat to the specialized housing finance institutions-HFCs. Almost all among the public sector banks, private banks and foreign banks have experienced that the retail credit is lucrative, particularly the housing finance segment which presently accounts for nearly 80% of their incremental retail credit exposure. Since the market size is enormous and the product differentiation is insignificant many players have entered the housing finance foray; thus emerged as the lucrative business alternative to the hitherto followed practice of lending to "Production based activities of corporate and business / industrial units. The reasons for this major shift in focus are many, a few of the most important ones being
1. The poor credit off-take to the corporate, commercial and other business sectors because of industrial slowdown.

2. The risky nature of lending to corporate, given the industry recession and uncertainty prevalent in the economy; along with the fast diminishing profit margins because of the ever increasing bargaining power of good corporate.

3. High disinter mediation pressures, leading many highly rated corporates to tap the domestic and / or overseas markets directly for finance, rather than approaching the banks

4. Relatively safe nature of the housing assets, with lesser incidence of loans turning bad.

5. Rising disposal income, changing lifestyles/aspirations and willingness to spend more on luxuries by the higher middle class

6. Fiscal concessions in the form of tax rebates, provided by the Government every year, luring more and more people to avail housing loans, thus enlarging the market.

Consequently, housing finance presently occupies one of most prominent positions in the advances portfolio of commercial banks and its proportions is growing at a fast pace. The incremental credit in respect of almost all the Banks in Housing Finance is to the extent of cover, 20%
while the share of the total retail credit portfolio is more than 25%. Eventually, commercial banks have outgrown the HFCs in their relative share of housing finance pie, as of the fiscal ended March, 2003; as per a study conducted by FICCI. The following comparative data on housing finance disbursements published by NHB also points to the above fact.

**Housing Finance Companies (in Rs.Cr)**

<table>
<thead>
<tr>
<th>Apr-June 2002</th>
<th>Apr-June 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit</td>
<td>Amt</td>
</tr>
<tr>
<td>86995</td>
<td>2721.86</td>
</tr>
</tbody>
</table>

**Public Sector Banks (in Rs.Cr)**

<table>
<thead>
<tr>
<th>Apr-June 2002</th>
<th>Apr-June 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit</td>
<td>Amt</td>
</tr>
<tr>
<td>97254</td>
<td>2711.17</td>
</tr>
</tbody>
</table>

Source: NHB’s Website

With the growing need for housing, housing finance industry has emerged as 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 the coming years, the same is estimated to be still higher, in the order of about 35%. The soft interest rate regime followed by the government resulting in constant lowering of interest rates, entry of many new players particularly that of the commercial banks into 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 sources of finance to good corporates, insignificant product differentiation among the competing firms etc. Have made competition in housing finance industry very stiff.

Consequently, lower interest rate and softer terms are being used as tools to mobilize business by the competitiveness and quality have emerged as key success factors in the change environment. As per the preliminary estimates of NHB, as of the financial year ended 31.03.2003, the total disbursements from banking sector crossed Rs.30,000 core whereas the same from the housing finance companies has been about Rs.18,000 Core.
Another significant development has been the consolidation in the housing finance industry during the last few years. Stiff competition in housing finance market has made the functioning of many a small player unviable, specialized housing finance companies promoted by commercial banks like those of State Bank of India (SBI Housing Finance Ltd), Andhra Bank (Andhra Bank Housing Ltd.) Vijaya Bank (Vibank Housing Ltd), Indian Bank (Indian Bank Housing Ltd.) were liquidated and their assets were taken over by the respective parent banks. Similarly, Vijaya Bank (Vibank Housing Ltd.,) were liquidated and their assets were taken over by the respective parent banks. Similarly, Vysya Bank’s housing finance subsidiary (Vysya Housing Finance Ltd.) has recently been acquired by a bigger HFCs viz. Dewan Housing Finance Corporation Ltd. Likewise, housing assets portfolio of Citibank has been taken over by LIC Housing Finance Ltd.

These consolidations in housing finance market point to the fact that functioning of small HFCs are very much under pressure. On the other hand, big players are increasing their market share as is evident from the fact that the four major players in the industry (viz. HDFC, LICHFL, SBI and ICICI together accounted for a share of 83% for the fiscal 2002-2003 as against 72% for the previous year, 2001-02.
Recent Developments:

Some of the more recent government initiatives in the field of housing finance likely to bring about a positive impact on this industry segment are as follows:

1. Union Budget for 2003-04 seeks to maintain the present momentum of growth in housing sector by providing or continuation of the interest deductible under income tax up to Rs.1,50,000 for purchase or construction of self-occupied house property (i.e., Under Section 24 of the IT Act). Further rebate of up to Rs.20,000 for repayment of principal amount is also available under Section 88 of the IT Act. In addition, it has been provided that income from housing projects for construction of residential units of prescribed specification, up to March 31, 2005 will be exempt from income tax.

2. The Government has enlarged the scope of SARFAESI Act, 2002 to include the Housing Finance Companies (HFCs) also within its purview. This has helped HFCs to recover their bad loans more effectively and they can concentrate more on their mainstream
activity of lending. Which in turn has improved their competitiveness in relation to the banks.

3. Financing through Mortgage Backed Securitisation (MBS) has emerged in Indian environment also, consequent to the amendment in the National Housing Bank Act. NHB has already commenced securitisation of housing loans. As of the fiscal ended 2002-2003, NHB has so far completed securitisation of 7 pools involving housing loan assets aggregating Rs.500.12 cores. With the availability of such a secondary market for the securitisation of mortgages and other receivables, greater flow of funds into the housing sector has been made available.

4. NHB has declared that its Mortgage Credit Guarantee Scheme will be made available to all housing loans soon thereby fully protecting lenders against default.

5. In order to encourage the banks' exposure to housing, RBI has reduced the risk weight on housing loans to 50% (from the earlier weight of 100%) and the same is lower than that for industrial loans or consumer finance.
**Statement of the problem**

Housing is an industry with tremendous potential for contributing towards economic growth of any economy. In a developing economy like India, its significance need not be over emphasized. This is because of different factors, like

i. It is one of the top employment generators for the economy

ii. Linkage both forward and backward – with over 250 industries including such core industries like cement, steel, Timber, ceramic tiles etc.

iii. It is supposed to be the most preferred investment avenue in a recession hit economy.

Owning a house is the dream for the lot of middle class people in India. Regarding Velur Town, lot of employed and self-employed middle class people were struggled to buy (or) constructs a house. As it is a semi-Urban area they have less opportunities to apply for the home loan due to the absence of more lending Agencies in the area.
Living in a own house ought to changed the lifestyle of an individual. It can be seen in various aspects of a person’s daily life. It is perceived as an enhancement of an individual’s ‘Status’ in the society. Freedom and satisfaction is felt not only by the individual but also by all the members of the family. This particular stage compel the individual to change the daily activities, opinions and personal interest about the life, community and society to a larger extent. In this context, a study on life style changes of such house owners was made to bring new insights in this subject.
METHODOLOGY

The study is primarily on exploratory type of research and hence required the following methodology for its application.

The Sample

Velur Town is selected as the area for this study. It is one of the first Grade panchayat in paramathi—Velur Taluk of Namakkal district. Out of 16 wards in Velur Panchayat samples were selected in 13 wards only as the remaining three wards are slum areas. Using convenient sampling 150 respondents were selected. The sample respondents are those who have constructed a new house and its also self-occupied by them selves. Out of 150 questionnaires issued 25 questionnaires has to be discarded due to incomplete answering and other reasons.

The Questionnaire

A two-part questionnaire has been developed to access the change in life style of House Loan borrowers.
Part I- Multiple choice type of questions were asked about the change in life style

   in terms of goods purchased / change of brand, change in Activities etc.

Part II- Personal data regarding age, education, occupation, monthly income, number of family members, and Family life cycle were collected.

   A pilot study was conducted among 18 New house owners of Velur Town to test the quality of items in the questionnaire. The finalized questionnaires were distributed to respondents who were informed on the nature of the study. (Annexure – I)

Frame work of Analysis

   For classification the simple percentage analysis is used. Chi-Square test was applied for examining the association and difference between preference of lending Agency, size of the house constructed and socio-economic variables of the respondents. Bar diagram and pie diagram were used to understand the results more clearly.
OBJECTIVES

The specific objectives of the present study are as follows:

i. to study the growth and development of housing finance system in India

ii. to identity the factors considered by the consumers while going for home loan option

iii. to study the existing customers satisfaction level of House Loan borrowers

iv. to analise and findout association / difference between the lending Agency and size of the house with selected demographic variables
Limitation of the study

Besides the usual limitations of any behavioural and attitudinal study, the present study posed the following further limitations.

1. Unlike demographics, many life style factors are difficult to measure, somewhat subjective, usually based on the self report of consumers and sometimes hidden from view.

2. Attention was given only to 12 life style activities among the 100 (or) more life style traits available.

3. All data were collected from 13 wards of Velur Town. A broad generalization of the results may not be valid for the whole state (or) country.
Chapterisation

The plan of the dissertation is distributed in the following manner.

Chapter –I On Introduction, introduces the subject matter, growth and development of housing finance system in India, narrates the statement of problem and sets out the objections of the study. It also explains the methodology adopted.

Chapter –II On Review of literature explains the measuring of lifestyle, lifestyle constructs and consumer behaviour, life style research studies both Abroad and Indian etc.

Chapter –III On Analysis-I, Provides analysis of the present study in terms of size of the House, preferred lending Agency, Satisfaction level, Demographic composition of the respondents etc.

Chapter – IV On Analysis –II, provides analysis in terms of Association if any between lending Agency and size of the house with Age, Education, monthly income, profession etc.

Chapter –V On summary, it presents the summary and finding of all the previous chapters.