Chapter - VIII

Summary and Recommendations
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SUMMARY AND RECOMMENDATIONS

INTRODUCTION:

Housing is one of the basic necessities of life such as food and clothing. The Indian constitution under Article 3, recognised housing as an important welfare activity. Housing, besides satisfying one of the basic necessities, is an important economic activity and plays a significant role in the socio-psychological development of the individual. Investment in housing represents 20 to 30 per cent of fixed capital formation of the country and contributes 6 to 15 per cent of the GNP (Gross National Product). Housing construction is labour intensive and provides employment to about 16% of the total work force in the country.

HOUSING PROBLEM:

Housing is a global problem. The advance made by even the advanced countries is far from satisfactory. It is estimated that approximately, one-fourth of the world's population does not have adequate shelter. For quite a large number of people all over the world, housing, which provides socio-economic benefits, is a far distant dream. For many millions, the sky is the roof to sleep under which and billions dwell in unstable and insanitary settlements, where the basic facilities are conspicuous by their absence or chronic inadequacy.
The housing problem being a manifestation of poverty is naturally very chronic in the developing countries where an essential two-thirds of the population live below poverty line. Indian scenario is not different from one prevailing in most of the developing countries in Asia, Africa and Latin America. In India, at present, around 30 to 35% of the population are houseless.

Coming to the rural and urban proportion in the housing problem, the problem of rural housing differs significantly from the housing problem in the urban areas.

Population explosion and uncontrolled growth of urban population are some of the important reasons for creating the housing shortage and indecent housing in India. The main reasons for increase in the population growth during recent years are reduction in mortality without any significant change in the birth rate. It is estimated that the population would reach 1164 millions by 2011 and the rate of urban population to total population would be 36.6% as against the present rate of 26.7% This will still worsen the housing problems if necessary measures to control the growth of population and urbanisation are not initiated.

**HOUSING NEED:**

The concept of housing shortage is essentially linked to the concept of housing need. Housing need is the shortage of houses in providing each household in the population irrespective of their ability to pay for the house.
As the households increase, the demand for housing will increase and which might result in housing shortage if the supply of houses is not at required level.

SUPPLY OF HOUSES:

It is well affirmed that the supply of dwelling units has not kept pace with the demand for houses which has increased at a faster rate because of the growth of population. During the period 1901-1991, the supply of houses recorded a growth rate of 213% whereas, the total population has shown a growth rate of 255%. It is estimated that against requirement of 5 dwelling units per thousand population per year, the current net additions to housing stock is only 2-3 dwellings per thousand population per year.

HOUSING SHORTAGE:

Housing shortage is a gap between the total demand and the total stock of houses. Housing shortage may arise due to increase in population, internal and external movement of population, changes in families and household structures, lack of supply of sufficient number of houses etc..the Housing shortage has been increased from 15.2 million units in 1961 to 31 millions in 1991 and expected to increase to 41 millions in 2001, of which, 62% falls in rural areas and 38% in urban areas.

QUALITY OF HOUSING:

The ratio of pucca houses to the total houses in urban areas has been growing over the period and it is 72% of the total housing stock in 1991 whereas, the ratio of semi-pucca houses has been decreasing and it forms only 17.7% of the total housing stock. In the rural areas also, the same trend is
maintained with regard to pucca and semi-pucca houses resulting in the increasing tendency for more pucca houses.

During the past ten years both in urban and rural areas, demand for multi-room houses has gone up. The average number of persons per dwelling in rural areas is higher than in urban areas. The percentage of owner households has increased considerably over the decades. It is further observed that the phenomenon of households residing in their own houses is very much prevalent in rural areas than in urban areas.

**SLUMS:**

The slum population of cities in India has been estimated to increase from 51.2 million to 64 million by the year 2001. The slum dwellers are not occupying the houses built for them by the Government under various social housing schemes. They prefer to live in the city centres, where they could get livelihood They sacrifice their living comforts for the sake of bread.

**INITIATION OF THE GOVERNMENT:**

Government of India had prioritised the housing to improve the standard of living of the people in plan outlays. Social housing schemes like weaker sections housing, Indira awas yojana, etc., were evolved for housing EWS and LIG category people. In that direction the HUDCO was established in 1970, the HDFC was established in 1977, to accommodate housing loans to EWS category people. In 1988 the NHB was created to provide refinancing facilities to various financial agencies and to co-ordinate the housing finance activities.
NATIONAL HOUSING POLICY:

To achieve the objective "shelter for all by 2001", the government has redrafted the NHP in the year 1994. It has advocated that the government should change its role from that of a builder to that of a facilitator.

HOUSING FINANCE SYSTEM:

Housing finance may be defined as the need to reconcile the three partially conflicting objectives of affordability of households, viability for financial institutions and resource mobilisation for the expansion of housing sector and of the national economy.

The fact that housing is a very expensive commodity which needs heavy capital outlay, testifies the vital role of finance in housing sector. Housing requires a heavy long-term investment and the demand for housing is disproportionate to the available and affordable funds.

In a number of developing countries, a principal obstacle in providing housing finance to households is the absence of well developed financial system and institutions. In India also, an organised institutional housing finance system was lacking. Informal agencies have played a significant role in financing the housing activity. But the last three to four decades have seen significant institutional development in the area with the formation of the HUDCO, and the HDFC in the public and private sectors respectively. Increasing attention has come to be placed in recent years on developing a dynamic housing finance system in the country.
Approximately Rs.25,000 cores also are annually required for eliminating the housing deficit and meeting the incremental demand. In order to make the housing finance system viable and most competent, it is necessary to integrate all the institutions involved in the supply of housing finance.

**SOURCES OF HOUSING FINANCE:**

Sources of housing finance can be broadly categorised into three sectors, viz. Public Sector, Private Sector and Co-operative Sector. They can also be put in another way that is formal sources and informal sources. The personal savings of households, sale proceeds of jewellery and other properties, borrowings from relatives, friends and money lenders are the informal sources.

The formal sources include budgetary allocations of the government, help from LIC, GIC, UTI, Commercial Banks, and Provident Fund Organisation, special institutions like the HUDCO, Apex co-operatives, HFls, etc.

The LIC invests nearly 75% of its funds in schemes providing welfare to the people of India. Out of its total loanable funds nearly 16% are to be invested in the housing sector. Till 31st March 99 the total advances for the housing came up to Rs.12,500 crores. LICHFL, a subsidiary of LIC alone has disbursed about Rs.5,024.23 crores housing loans by 31st March 99.

Housing finance by commercial banks is more significant in countries like the U.K. and the U.S.A. In India, after nationalisation, the banks have
participated in the housing finance. Many nationalised banks have started subsidiary companies of their own to exclusively provide housing finance.

The HUDCO, established in 1970, as a Government company accelerated the movement of housing finance. Though it depended on the government for its equity support, could obtain 65% of market borrowings during 1998-99. It has so far financed Rs.15,210 schemes till March 99. And disbursed about Rs. 32,313 crores To develop low cost technology, the Building Centres scheme was developed. HUDCO Niwas is yet another scheme from the HUDCO to provide direct finance to individuals.

The HDFC (Housing Development Finance Corporation) a privately owned company incepted in 1977, made a remarkable progress in the field of housing finance. Its cumulative disbursements on 31st March stood at Rs.13,968 crores for 4.3 million units in nearly 1500 towns.

There are nearly 521 Housing Finance Companies operating at present, out of which 20 are eligible to get refinance from the NHB. Though they are almost dumping funds into the market heavily, cumbersome procedures, high servicing costs etc, are some of the constraints.

Housing co-operatives having Primary Co-operative House Building Society at the grass root level and the apex federation at the state level provide housing finance based on co-operative principles. LIC is the major financier to the HOUSEFED which, in turn, lends to the individual loanees through CHBS.
NHB is an exclusive wing of the RBI established with the prime motto 'to serve the small man first'. It is totally involved in refinancing activity. It co-ordinates the activities of different financial institutions for housing in the country. Housing finance institutions have become strong particularly after the inception of the NHB.

HOUSING FINANCE UNDER CO-OPERATIVE SECTOR:

Government efforts alone are insufficient to tackle the gigantic shelter problem and such efforts need to be implemented by private organisations, co-operatives and public enterprises. The co-operative movement can play an effective role in mitigating the problem.

In India, the idea of co-operation is not new. The co-operative housing offers tremendous scope for promotion and development of housing activity. The co-operatives are also considered as a trusted agency for the implementation of government schemes of housing particularly, of the weaker sections. Housing co-operatives foster national integration in the process of participatory involvement.

Housing co-operatives look after the welfare activities of their members and help them in living together in harmony. Co-operative housing appears to be a possible solution to overcome all the weaknesses of the State and private sectors.
CO-OPERATIVE HOUSING - NHP:

In the new NHP 1994, the government envisaged a larger role to play for housing co-operatives and hence, they have to shoulder a heavy responsibility in providing shelter to the needy.

HOUSING CO-OPERATIVES - SOCIAL HOUSING:

Co-operative Housing Societies have been accorded a special role in the implementation of social housing schemes. It has been proved beyond any comprehension that, the co-operative housing sector has enabled several households in the lower income groups and economic weaker sections to gain access to their own housing.

HOUSING CO-OPERATIVES - RURAL HOUSING:

The co-operative self help is the best method of tackling the housing problem. Nearly, 4,200 primary co-operative housing societies affiliated to apex federation are operating in rural areas. However, no organised effort has been made in most of the states to develop rural housing co-operatives.

HOUSING CO-OPERATIVES - ORIGIN:

Housing co-operatives were formed initially to provide housing finance and later extended their activities to construct the houses. In India the first co-operative was organised in 1909 in Mysore State. This is a two-tier federal structure in each state with an apex society at the State level spread all over the state. There are District Co-operative House Building Societies operating exclusively in the states of Maharashtra, Gujarat, and Karnataka.
Membership is open to all individuals in the primary societies, whereas, the membership in apex federations is restricted to the primary societies that come under their jurisdiction. The primary societies raise their funds by way of share capital and loans from apex federations. The role played by the primary societies is only of intermediaries in between federations and loanees.

APEX FEDERATIONS:

The State Apex federations are formed as a result of various statutes passed in their respective states. The share capital, borrowings from the LIC and from the state governments are the chief sources of finance besides raising funds by issue of debentures guaranteed by the government. However, the LIC is a main financier to the federations so as to say it is a life giver. These federations provide loans to the member applicants indirectly through the CHBSs which is generally released in three stages and the loan money is recovered by monthly instalment system.

NATIONAL CO-OPERATIVE HOUSING FEDERATION:

The NCHF, which was set up in 1969, is a national organisation to guide and co-ordinate the activities of all affiliated co-operative house building societies. NCHF is responsible for an era of success in the co-operative movement. Housing finance under the co-operative sector has grown strength to strength.
HOUSING CO-OPERATIVES - PROGRESS:

Though the co-operative housing movement had been there for decades, the actual progress began in 1950s. The growth registered is almost nineteen times in a period of 38 years (1960 to 1999), from 5,564 units to 95,000. The first apex federation was established in Karnataka State in 1950. Now, almost every State has a federation.

Some vested interests have culminated the atmosphere in the co-operative sector particularly in the area of housing finance. Problems like non-availability suitable cheap land, building material at concessional rates, heavy registration, mortgage expenses, other legal problems along with heavy the problem of heavy overdues etc., have hampered the actual growth of cooperative housing system. In view of this, the implementation of useful and strong remedial measures is the need of the hour.

A.P. CO-OPERATIVE HOUSING SOCIETIES FEDERATION LTD. (A.P. HOUSEFED)

A.P. HOUSEFED is an apex Institution for housing finance in the co-operative sector with an area of operation extending to the entire state. Started in 1970-71, it has shouldered the responsibility of financing the primary housing co-operatives which was done by the Government previously.

There are 1393 PCHBS as its members as on 31st March 1999, of them only twelve are construction societies and the rest are financing societies. The
share capital of the HOUSEFED is contributed by the PCHBS and A.P. State Government. The LIC is the main source of borrowing and the HOUSEFED is at present totally depending on it. The loans are granted for the construction of a new dwellings under LIG, MIG, HIG-I, and HIG-II categories at the rate of 14.5% interest.

The Managing Committee consists of nineteen member body with an M.D. appointed by the government. The cumulative sanctions of the HOUSEFED amounted to 21,000 lakhs as on 31st March 1999 and the disbursements amounted to 19,203.93 lakhs for the construction of 53,826 dwelling units.

The rate of recovery of loans from the CHBSs is declining year after year leaving behind a large amount of overdues. As on 31st March 1999, the overdue amount is to the extent of 61.3%, whereas the rate of recovery is only 37.15%. Despite this pathetic situation, the HOUSEFED is able to earn some profits every year. It is aiming at providing finance to the tune of 15 crores for the completion of 1350 units and 900 new units by 1999-2000 year.

NELLORE DISTRICT-PROFILE:

Nellore District in the State of Andhra Pradesh, India, is divided into 46 mandals under three revenue divisions with a population of about 24 lakhs. The urban and rural population ratio is 24:76. As per census 1991, the houseless population in the district is 8848. Efforts are being put in to reduce
this figure for the past three decades. Both governmental and non-
governmental organisations have constructed nearly 1,40,000 houses under
various schemes.

COMPETITORS:

A.P. Housing Board, Scheduled Commercial Banks, the Nellore District
Co-operative Central Bank, The Nellore Co-operative Urban Bank Ltd.,
LICHFL, AB Homes Finance Ltd., Dewan Housing Finance Ltd. Are some of
the important contributors to the housing finance market in the district.

ORIGIN, PROGRESS AND STYLE OF FUNCTIONING:

The first CHBS in the district was started in the year 1928 and since
then the movement spread to the nook and corner of the district. There are
33 CHBSs affiliated to the A.P. HOUSEFED in the district and out of them 14
are not working at present. Only the remaining 19 societies are taken for this
study. The membership is allowed to all irrespective of caste and creed

Managing Committee, which is an elected body, plays a fundamental
role in the co-operative house building societies by carrying out the total
administration. The respondents have expressed mixed opinions over the
political parties' interference in the elections. The president of the society gets
a meagre amount as honorarium and the general body attendance is also not
encouraging.
The CHBSs are facing a resource crunch and are unable to meet the demand for housing finance from the public. Paucity of funds is one of the reasons for the abnormal delay in the sanction of loans by the CHBSs. The HUDCO does not provide any financial assistance to these CHBSs.

The HOUSEFED deducts 1/12 of the loan amount towards share capital of the loanee. No reward has ever been given on this amount either in the form of dividends or in any other. Loanees really feel it as a big burden on them.

The accounts of the loanees maintained with the societies generally do not tally with those of the Head Office of the HOUSEFED. Hence, there is a problem of reconciliation of accounts almost every time whenever, the accounts are to be closed after complete repayment loan amounts. Due to this reason, the return of original documents is getting abnormally delayed causing anxiety to loanees.

The CHBSs along with the loanees are not quite happy with the three-tier stage functioning of the HOUSEFED and feel that the Regional Offices are unnecessary. The CHBSs collect the loan amounts in monthly installments and remit the same to the HOUSEFED. The rate of recovery is awfully poor and is the cause of the failure of these societies. All possible ways of threatening have proved futile. The response is not that effective even for the levy of penal interest @ 2.5% hence, the overdue position.

The CHBS do not maintain staff-business ratio properly. Always they suffer the problem of understaffing. The stature of the CHBS has not grown to the extent of maintaining itself independently.
THE CHBS - FROM LOANEE'S POINT OF VIEW:

The CHBS categorised its loanees into LIG, MIG, HIG I & II with different slabs of loan amount. There is no prescribed educational qualifications to become a member. The functioning of the societies will be based on the principles of co-operation. They are above the level of communal considerations.

Almost all respondents have expressed the view that the quantum of loan is disproportionate to the cost of construction on the lower side. With the result, the loanees cannot make out things without private borrowings and personal savings. 60% of the houses constructed have been occupied by the loanees themselves and the rest have been kept under the control of others for rent/higher rent. At present the public preference of the CHBS for loans is on the lower web. Every possible effort should be put in to make them more compatible.

Public awareness about the co-operative housing finance is poor when compared to other agencies in the same line. Good working and members satisfaction is alone a strong publicity. All have said that none of them have received any information about this source through any popular methods of publicity.

The general complaint against the CHBS is that they do not follow up repayments nor pressurise the loanees for the same. Another grievance is that the General body meetings are not conducted regularly and there is no information about the things going around. Majority of the loanees expressed mixed feelings about the CHBS as a source of housing finance.
RECOMMENDATIONS

While undertaking this study of co-operative housing finance, certain deficiencies have been noticed, due to which, the present co-operative housing finance system is not being managed on sound lines. Hence, the following recommendations/suggestions are being put forward for activating the housing finance system under co-operative sector.

(1) SOURCES OF FINANCE:

As a primary housing finance agency under co-operative sector, the Co-operative House Building Societies (CHBSs) disburse loans to their loanee members. They get supply of finance from the apex institution, the A.P. HOUSEFED. There is a direct link between the two for a resource flow. The welfare of the HOUSEFED and the CHBS is inter dependent. As long as the borrowed funds are not cheaper, the future of the CHBS is bleak. The HOUSEFED, at present, totally depends on the LIC for its loanable funds. The LIC besides being a big source of finance is also a close competitor to the CHBS in the field of housing finance.

The LIC collects 13.5% interest on advances to the HOUSEFED. The HOUSEFED adds 1% to this, and advances to the CHBS. The CHBS in turn, adds another 1% to this (this means 15.5%) and passes it on to the individual loanee. Here, the note worthy point is that a loan from the CHBS always attracts higher rate of interest than that of the LIC. That means, for any prudent loanee, the housing loan from the CHBS appears to be expensive as
against the popular competitors like LICHFL, AB Homes Finance Ltd. Etc.
There is no chance for the co-operative sector housing finance to withstand the
competition and flourish in the market. There would be no attraction for the
members to prefer loans from the CHBS.

In order to make the CHBS more compatible, this practice must change.
First of all, the HOUSEFED should stop depending on the LIC for financial
help and go for such sources that provide cheaper finance. The following
important alternative financial sources may be considered:

(a) The State Government may come to the rescue by allocating separate
budget by taking the total demand for the loans under this sector into
consideration and make the HOUSEFED accountable for its
management.

(b) The HUDCO(Housing and Urban Development Corporation) may come
forward and provide 100% finance to the HOUSEFED for its lending
operations at interest rates not more than 11% so as to enable the
HOUSEFED and the CHBS to pass it on to the individual loanee at
least at 13%. This will definitely go a long way projecting the CHBS
a strong lender of housing finance.

(c) Funds on self-generating style may be mobilised by the HOUSEFED
from the public by the sale of "FRIENDSHIP BONDS", at affordable
face value preferably of Rs.100 each, redeemable after 10 years. The
bonds are to be guaranteed by the State Government and the
subscription should get exemption under the Income Tax Act.
d) The refinancing facility extended by National Housing Bank (NHB) can be utilised by the HOUSEFED, if the present qualifying loan recovery rate of 80% as per the norms of NHB is temporarily relaxed by 30% (qualifying percentage 50%) for 3 years, in view of a heavy overdue position.

(2) OVERDUE RECOVERY:

The "Overdue" is like a dreadful disease spreading through out the co-operative housing agencies and driving most of them to remain defunct. Today, as many as 14 societies out of 33 have gone out of order just because of this overdue problem. An Excessive overdues position hampers the furtherance of the activity of housing finance. As per the rules of the HOUSEFED, if the CHBS maintain 35% and above overdue position, they become disqualified to borrow further from the HOUSEFED. According to our study, the average overdue position maintained by the CHBS is 61% and above. Due to this reason 14/33 societies in Nellore district have gone out of site. No borrowings from the HOUSEFED means no business for the CHBS. They become stale and voiceless regarding overdue collections.

To a question, why there are overdues There appears to have been two reasons. The first One is the callousness of the loanees, which is almost conventional. Unfortunately, loanees are never serious about the repayment of these loans. And they think that they can repay them leisurely after more urgent repayments. The second reason being the lethargic attitude of the management and staff of the CHBS in following up the loan repayments.
The present study suggests the following ways for coming out of this problem:

(a) A three month notice as to the fixation of the cut-off date by which the overdues must be cleared should be served to the loanees, failing which, their houses will be subjected to sale by auction.

(b) Demand notices for the entire over due amount along with penal interest may be prepared and sent to all the defaulters, offering them some percentage of discount on penal amount, if payment is made on or before the cut off date.

Our loanee respondents have said that, the society's staff cannot do this job as they maintain close rapport with the loanees. They also say that the job should be done by the Recovery Officers with utmost integrity.

(3) INSUFFICIENT LOAN AMOUNT:

It is some thing peculiar to note that the amount sanctioned for various categories of loans (LIG - Rs.75,000; MIG - Rs.1,50,000; HIG-I Rs.2,00,000; and HIG -II Rs.3,00,000) is disproportionate to the actual cost of construction, despite the submission of engineering reports and surveyor's estimate. It appears, that the estimates bear no relation to the amount of loan disbursed. In that case they remain a mere formality. As a matter of fact, the loan amount so fixed for these categories is not sufficient to complete the construction of the house. Therefore, the loanee has to invariably approach some other source for further amount, preferably a private one at a high rate of interest. Evidently, the repayment of second loan takes the priority over the loan from the CHBS and invariably the later gets overdue.
To avoid this, unwanted situation, the societies may be advised to go in for full-fledged financing for the construction of a house, so that, 'one house - one source of finance', will be maintained.

(a) The problem arises when the question of the total amount required for construction comes up. It can be avoided if, the CHBS come forward with some architectural plans showing, the size, model and estimated cost of the house based on the latest prices. In each category, a minimum of six models may be prepared for providing choice to the loanees.

(b) After the estimation of loan, based on the model he selects, in each category, a statement giving the details of the share of personal contribution towards the total cost of construction may be taken from the prospective loanee. The amount of personal contribution termed as 'matching money' should not be less than 25% of the total cost. The loan amount, however, may be granted taking into consideration, such personal contribution subject to a maximum of 75% of the total cost. The respondents have applauded our suggestion and welcomed it saying that this would certainly solve the common man's actual housing problem and thereby the national cause of housing development. If the houses are designed in different models, in the same range of cost, the public would find them quite attractive and approach the CHBSs for loans. This may definitely add to the successful existence of the CHBSs.

In this arrangement, the loanee will have only one financier and will try to concentrate on prompt repayments mostly avoiding overdues.
(4) HOW THE CHBS CAN BE ATTRACTIVE?

As it is, the position of the CHBSs in the housing finance market, is some thing not worth mentioning. On Enquirer, nearly eighty respondents told us that they had found the loan amount to be quite negligible and yet they happened to apply for it as it would be useful as a part amount in the process of their house construction. This is merely exploitation of source rather than necessity oriented use of source.

On our observation, it was found that in many cases, the CHBS' loan amount formed even less than 25% of the amount spent on construction and some even said that, this loan amount was negligible for them. On many occasions, there was a feeling that these loans alone could not create houses. Many complained that, many a time the needy could not be served by these societies. When compared to the other competitors in the housing finance market, the CHBSs show lower stride regarding interest rates, heavy documentation, delayed processes etc.

In this context the following modalities may be recommended:

(a) Among the applicants, the needy should be identified on the basis of 'a loan- a house' policy.

(b) Loans at competitive rates of interest should be offered to the loanees. This may be possible if the recommendation-1 in this topic is followed.

(c) Flexibility of loan amounts should be maintained year after year based on the latest estimates of the government engineers to see that the amount meets the financial requirement of the house as per the ratio (25:75).
(d) The materials, which form the major ingredients of the construction, should be item-wise estimated and finalised at the end of the CHBS with the involvement of government housing engineers. The quality of material should be maintained and purchase of material should be made mandatory to all the applicants.

(e) The State Government should provide the required main material like cement, iron, reinforced hollow cement blocks, wood(if possible), etc. at advantageously concessional rates either to one or to a group of CHBSs as per the feasibility. The CHBS will in turn, supply this material to the respective loanees, as per the finalised material estimates against full payment of cash in lumpsum or allowing them to draw in three installments against full payment within a specified period. This will save considerable amount of money to the loanee and at the same time, this will decide whether a loanee is genuine or not. Last, but not the least, this will lead to employment generation.

Attractive interest rates, engineering services, material supply at concessional prices exclusively to the loanees of the CHBS will make them privileged. These additional services will go a long way in attracting a number of new loanees and the CHBS will have always an edge over its competitors.

(5) APPLICATION PROCESS:

All the respondents have complained that there is in-ordinate delay caused in completing the process of application for loans. Generally, to finalise a loan, it will take three months to one year, and in some cases it is even more. The routine red-tapism seems to be the only reason for this delay. The application will have to pass through three stages Viz. the CHBS, the Regional Office of the HOUSEFED and the HOUSEFED and back. Many a time, applications have been rejected for want of some technical detail or the other.
For expediting the process of application, the following suggestions may be offered:

(a) All the applications received by the CHBS should be thoroughly scrutinised as to its comprehensiveness according to the check list and then be sent to the Regional Office of the HOUSEFED.

(b) The three stage process of the application may be reduced to two stage i.e., the application may be finalised either at the Regional Office of the HOUSEFED or at the HOUSEFED.

(c) The time taken for finalising the application may be fixed keeping not more than 30 days time from the date of application.

(d) Whenever the loan applications are accepted by the CHBS, it should be a definite loan. The sanctions are to be made known to the CHBS by the HOUSEFED and the CHBS should accept only as many applications as to see that none of them is returned for want of sanctioned funds.

(e) Loan amount is sanctioned in three stages by the HOUSEFED. Nearly 70% of the respondents complained that they have all suffered the undue delay of the second and third installments. There was a long gap between the date of completion of the first stage of construction to the date of release of second instalment. In between, there is a loss of time and money.

In-order to regulate the release of loan installments, at least twenty days before the probable date of completion of the first stage of construction, self declaration paper may be sent to the HOUSEFED through the CHBS so that, the delay between the release of installments may be avoided.
(6) RECOVERY OF LOANS:

For CHBSs, more than the applications for loans, loan recovery is very important. It is the bad loan recovery that is responsible for the bad condition of a number of CHBSs.

The loan sanctions to each CHBS is directly linked to the quantum of loan recovery. The society is eligible to get loan sanctions from the HOUSEFED if the loan recovery is 65% and above of the demand amount and otherwise the sanctions are likely to be discontinued. Therefore, it is very clear that the survival of the CHBS purely depends on the percentage of loan recovery.

The present study revealed that the overall recovery rate is 37.15 per cent as against the required eligibility rate of 65%. There is indeed a very wide gap. Due to this reason, 14/33 societies have become totally defunct and from among the remaining about 5 societies are on the way to become defunct for not getting any fresh loan sanctions due to the same problem. To improve this situation to the maximum and save the CHBSs from the wrath of their ill-fates the following suggestions may be advocated.

(a) At the time of disbursing the loans, the seriousness of the changed role of recovery should be thoroughly appraised to the loanee.

(b) The system of sending demand notices to the loanees at least fifteen days before the due date should be followed. This practice reveals the very concern of the CHBS about the loan recovery.
(c) One month grace period for the current instalment may be allowed and on default the penalty levied should be severe and threatening. If three installments are not paid continuously, the defaulters are to be served with a notice as to the date by which the total amount is to be paid along with penal interest or otherwise the house will be sold off in the open auction sale and the proceeds appropriated towards the loan due. The relevant papers pertaining to the formality may be taken at the time of application.

(d) Targets must be fixed for the Recovery Officers with incentives for the prompt collection of loans. Rule position may prove to be more effective than the persons themselves. Hence a strong rule position in the Law is essential to solve the problem of bad recovery.

7) REVIVAL OF DEFUNCT CHBSS:

During the course of this study, we have found 14 CHBSs to be defunct for various reasons like heavy overdue position, absence of further business for want of fresh sanctions etc. It also became difficult for defunct societies to collect back the loans and slowly they went into darkness. Because of this, the areas covered by these CHBSs do not have any representation. To bring back the co-operative housing finance system to the present working condition, if not to its old glory, a thorough revival of the societies is essential. The following recommendations may be followed for their revival:

(a) Verifying the feasibility of revival and check up whether the societies are in fit condition for the same.

(b) Forming a committee consisting of two Recovery Officers, two secretaries of active co-operative house building societies, the president and secretary of the revived societies, as they would sit together and plan up the modalities of revival.
(c) If bad recovery is the reason for the inactive condition, the procedure of recovery as mentioned in the recommendation -2 of this topic may be referred to.

(d) There is a need to reorganise the disintegrated staff.

(e) Temporary finances may be arranged, in view of the revival of the societies if the situation so demands.

(f) Last, but not the least, the state government, in consultation with the HOUSEFED should take proper steps and give its support in reviving the societies.

(8) STATUS OF THE CHBS:

Though, for the sake of the study of housing finance market, we take the CHBS as a housing finance unit along with other HFCs working in the market, there is absolutely no comparison between them. To take an example, a branch of the AB Homes Finance Ltd., is almost self-styled, full-fledged in all respects, whereas the stature of the CHBS is that of a mere agent of the HOUSEFED who can just handle the sanctions and can do nothing else. It almost interacts with a loanee and the HOUSEFED as an intermediary.

The peculiarity of the co-operative housing is that the loanee members are actually granted loans by the HOUSEFED to whom the loanees are not known and the CHBS with whom the loanees have contacts do not grant loans. Though the loans are sanctioned by the HOUSEFED to the loanees through the CHBS, there is no direct link between the HOUSEFED and the loanee and it has to look forward to the CHBS for recovery of the loans.
An interest margin of one percent is the main source of income of a CHBS, which varies with the quantum of business done. In some cases this margin is too low to give sustenance to the society.

To improve the stature of the CHBS, its working pattern should be made more purposeful. The society should be involved more in the business of housing finance than to allow it to remain a mere broker or a commission agent. Here the point is, is it the HOUSEFED doing business with the HOUSEFED through and with the help of CHBS or the CHBS doing business for HOUSEFED, is to be carefully seen. The following recommendations may be put forward to improve the general stature of the CHBSs.

(a) The societies may be lifted up above the level of a mere disbursing agent to the level of decision making body regarding loan sanctioning and a responsible unit for making recoveries effectively. That means though the loan is granted by the HOUSEFED to whom it has to be given should be decided by the society. At the same time societies must be given full authority and responsibility to collect every pie back.

(b) To make the CHBS more effective, the HOUSEFED should involve constructively to arrange the staff pattern in the CHBSs without affecting the principle of co-operation. In other words, it is advantageous to maintain the business relation with the CHBS by making it as a HOUSEFED Cell, so that the HOUSEFED activity of housing finance could be disseminated throughout the state more effectively. This removes the feeling and the attitude that the HOUSEFED and the CHBS are both different.
(c) To involve the CHBS in a big way the HOUSEFED may select Ten societies within the state based on their working efficiency. Their total business in each financial year is to be assessed and 25% of this amount may be given to the CHBS as a grant in the next year with full freedom of sanction and recovery. This grant may be increased in course of time depending on the performance of the CHBS. However, for the remaining 75% the existing procedure continues. Thus, the society will become very meaningful and purposeful. The total benefits on the 25% of the business will be enjoyed by the CHBS. Many of our respondents found this idea to be novel and the enthusiastic societies will show better results by working with utmost integrity. Depending on the rate of success, the HOUSEFED may consider the other remaining societies. All this will forge a concerted action to bring about healthy changes in the field of co-operative finance thus sharing the nation’s responsibility in finding solutions to the housing problem.

(9) RECONCILIATION OF ACCOUNTS:

This problem of reconciliation of accounts often arises between the CHBS and the HOUSEFED at the time of loan closure. Because of this, the loan closure is taking an average period of one year after the completion of the loan repayment. All respondents have expressed resentment over this problem. The main reason for this problem is said to be differences in the balances of both parties’ books of accounts.

A continuous reconciliation of the accounts of the CHBS and the HOUSEFED at regular quarterly intervals is advocated. Any difference between the accounts may hardly relate to one quarter which can be settled very easily and thus the loan accounts can be closed within a week or ten days and set the loanee free.
(10) REGISTRATION FORMALITIES:

Along with the application, the relevant property nomination is registered in the registrars office, which involves additional expenditure like stamp duty, registration fee and other expenses. The CHBS charges stamp duty @ Rs.6 per Rs.1,000 from the loanee for this formality.

This registration formality is not observed in the other housing finance institutions which are in competition with the societies because they are direct lenders to the loanee. If the CHBS removes this formality, it will be a sigh of relief and an attractive factor to a loanee. This removal, in no way causes any legal damage to the CHBS.

(11) RETURN OF DOCUMENTS:

There is a general complaint from all the sections of loanees that the release of documents by the CHBS is delayed taking one year and even more after the repayment of the last instalment to the society, causing anxiety to the loanees. One has to go several times to the CHBS for the sake of property documents. In response, the society throws blame on the HOUSEFED for the delay in returning the documents and which appears to be true from its end because the property documents are kept with the federation and it has to return the documents after the loan is fully repaid.

It is observed in the present study that, discrepancy in the account of the loanee concerned, in the books of the Head Office is the main reason for the delay in returning back the documents to the society. It is necessary to
reconcile the books of the CHBS with the books of the HOUSEFED to get unanimity in between the two. Hence it is advocated to follow recommendation no. 9 for the purpose of reconciliation which enables the federation to return the documents with ease and immediately after the payment of last instalment. "Before blaming the loanee for not being punctual, we should prove ourselves to be punctual" should be the philosophy of the CHBS and the HOUSEFED.

(12) POLITICAL INFLUENCE ON THE CHBS:

Though the structure of the CHBS is based on co-operative principles, according almost all respondents, the management is politically dominated. The political interference will be active, particularly in affluent societies. The president of the society is elected by the members of the CHBS. Hence, the political involvement is normally expected. In the process, dummy members creep up into the societies by paying a nominal minimum share capital. This situation besides not being helpful to the development of the society, may prove harmful by too much of interference in the day to day activities of the society.

At this juncture, it is essential that such situations should not be allowed to continue. To do this successfully, it is better to avoid non-loanee members for all practical purposes. Then, what ever goes wrong around the CHBS will be constructive irrespective of the political influence. There is every possibility of a good president being elected by loanee members.
APPLICANT'S CRITERION FOR LOAN:

Often, the entry of a number of unscrupulous persons into the societies was found to be one of the main reasons for a lengthy list of defaulters. The following precautions may be initiated while scrutinizing the applications for loan.

(a) To ensure that the applicant does not own a house at the time of application.

(b) To ensure that there is a recognised fixed income satisfying the eligibility limit.

(c) To ensure that he maintains a bank account and take advance cheques with Account Payee Special crossing for 12 months period, first at the time of releasing the loan and then, once a year till the loan is repaid completely. The amount column of the cheque may be kept blank to allow the society to fill up the instalment amount every month. This is foolproof method and there is no chance for any sort of fraud.

SHARE CAPITAL CONTRIBUTION:

As per the present regulations of A.P.HOUSEFED, one-twelfth of the sanctioned loan amount is to be subscribed as share capital by every loanee. The actual share capital amount works out at Rs.6,250(75,000x1/12) for LIG; Rs.12,500(150,000x1/12) for MIG; Rs.16,750 (200,000x1/12) for HIG I; and Rs.25,000(300,000x1/12) for HIG II. These amounts are fat and proved a heavy burden on the loanees, particularly at the time when the loan is being borrowed.
The share capital amount is deducted from the amount of first instalment and retained with the HOUSEFED and the same amount is adjusted at the time of settlement of the loan account. Indeed, it is unjustifiably heavy loss to the loanee.

It is recommended to reduce the share capital amount and remove the stipulation of proportionate contribution viz., i/12, and instead, specify fixed amounts for each category of loans as Rs.1,000 for LIG; Rs.2000 for MIG; Rs.3,000 for HIG I; and Rs.5,000 for HIG II. Though this arrangement leads to the displeasure of the federation, it will certainly be a matter of high solace to the shareholders as no reward is offered on their share capital in the form of dividend or any thing for years. Despite the fact that the HOUSEFED declared 25% dividends on net profits in almost all the preceding 4 years and distributed it to the CHBSs, the CHBSs in turn, could hardly find any opportunity to extend the same to their loanees.

(15) **PENAL INTEREST:**

As the list of defaulters day by day is expanding, the amount collected towards penal interest is also on the rise. The society collects 2.5% penal interest on the overdue amounts and remits the same to the HOUSEFED. If the CHBS is permitted to retain 1% and remit the remaining 1.5% to the HOUSEFED, it will be a sort of incentive to them as an additional income. It is hoped that this share in the penal interest amount will have a telling impact on the smooth maintenance of the CHBS.
CONSTRUCTION OF HOUSES:

During the present study, it is observed that construction societies are faring better than the financing societies. It would be beneficial to the CHBSs also to enter into the construction activity partially following the rules and regulations applicable to the construction societies.

In our survey while interacting with a number of people, we observed a craze in them for constructed houses. It will be beneficial to the society to follow the following recommendations before entering into the field of construction of course partially.

(a) The CHBS should acquire sites in a reasonably developing areas and may go in for the construction of minimum 50 to 100 two bed-room houses by applying all cost effective techniques. It may quote a price after adding a reasonable amount of margin and sell the houses to the applicants. In this process, the loanee(Buyer) has to pay the excess of the cost over and above the eligible loan amount. For example, if the house is priced at Rs.350,000, and the eligible loan amount is Rs.150,000, the down payment is Rs.200,000. However, the loan will be cleared off in the usual procedure. The society may also sell the constructed houses directly without any loan commitment.

The societies which undertake the activity of construction will win (a) margin of profit, (b) additional employment, (c) admission of genuine members, and (d) the satisfaction of 'a loan - a house policy'. This will keep the societies in life and make them flourish well.
(b) Alternatively, the CHBS may undertake the construction of houses as per the requirements of the loanees within a particular budget. In this case, besides sanctioned loan amount, the remaining cost of construction, may be collected in three installments as given in the following illustration.

<table>
<thead>
<tr>
<th>Cost of Construction</th>
<th>Rs.200,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligible loan amount (MIG)</td>
<td>Rs.150,000</td>
</tr>
<tr>
<td>Balance amount</td>
<td>Rs. 50,000</td>
</tr>
</tbody>
</table>

The balance amount may be paid by the applicant in two installments, one at the time of application and the second at the slab level. However, the loan is repaid to the society as usual and in the normal procedure. This system will provide a breathing space for the repayment in addition to the advantages mentioned in the first scheme of this point.

(17) REGULAR MANAGING COMMITTEE:

Every society as per the Co-operative Act will have a Managing Committee consisting of the president, vice-president, and another 5 or 6 directors in general. When the post of the society's president falls vacant, a Cooperative Department Official will be kept in-charge of the society to manage the affairs of the society to perform the duties of the president. They do not pay much attention to develop the society because they will be busy with their regular office work. The societies, which are under the control of the persons-in-charge, are facing a state of inertia during their regime. Hence, the respondent societies want to have elections in time and the committees be constituted, to ensure effective running of the CHBSs.
(18) **STAFF OF CHBSS:**

Our study finds the staff position in the CHBSs to be quite deplorable. In many societies, there is no good staff. Many respondents from both the wings have confirmed it. The societies are advised to observe the following in their staffing pattern.

(a) A minimum qualification of Intermediate should be prescribed for every member of the staff.

(b) The staff should have undergone co-operative training.

(c) The staff should comprise a secretary, a minimum of one clerk, one attender and even more depending on the work load.

Qualified staff is the base for the efficient running of the society. The staff should be paid salaries on par with the state government employees. They should be allowed and sent to attend the training programmes conducted by the N.C.H.F. The HOUSEFED may also at times give an opportunity to them to work in the Regional Office and in the Head Office so as to acquaint them with the policies and procedures followed at the higher level.

(19) **HOUSEFED - REGIONAL OFFICES:**

Prior to 1983, there used to be only the HOUSEFED at Hyderabad above the CHBS. All transactions used to run between the two. But due to heavy work load, the HOUSEFED has started three Regional Offices at Cuddapah, Vijayawada and Hyderabad. The Nellore district comes under the
jurisdiction of Cuddapah Regional Office. Now the transactions are being run among three offices. But this should not be confused as three-tier structure. Regional Office is performing the duties of the federation on its behalf and it is only an administrative arrangement.

Questions may be raised as to the existence of these Regional Offices and their relevance. No doubt, the regional Office will definitely share the responsibility and burden of the federation. But the Regional Offices excepting that of scrutinizing and recommending the loan applications practically do nothing. Some respondents have said that the Regional Offices are unnecessary and their job can be done at the Head Office level.

However, many respondents and the Research study findings are in favour of Regional Offices, but in a different style. To revamp the Regional Offices, the following steps are recommended.

(a) The Regional Offices should be empowered besides scrutiny of loan applications, be empowered with the authority to sanction loans. All the loans must be sanctioned and released at the Regional Office level only. This will make the procedure simple and faster. Head Office will be left free to monitor the entire housing finance.

(b) The Regional Office should handle the total accounting pertaining to the region only. Then reconciliation becomes easier and faster. The intimation of closure of the accounts will be sent to the federation for immediate release of property documents at their end.
(c) The Recovery Officer may be vested with authority to inspect the sites and progress of the constructions for which the loans are granted by the federation and submit his inspection report. This will develop rapport between loanees and Recovery Officer and make his job easy while pressurising for repayments.

(20) OTHER RELEVANT SUGGESTIONS:

(a) In the dynamic world, awareness of any subject is fast changing. As such, Co-operative institutions providing housing finance should create awareness about various schemes and their merits in the minds of public. Media publicity is the best source for this. If this is done, the dormant co-operative system will come to lime light. If the people become aware of these co-operative institutions, they may come forward and patronise them.

(b) Despite the critical conditions in which some of the existing CHBSs are passing through, there are societies coming with the efforts of some unscrupulous persons who use the co-operative societies for taking undue advantages in their real estate business. Every care should be taken hereafter to open societies that work for the public good.

(c) It is a persistent problem with almost every society that they do not conduct General Body meetings regularly as per the Law, for the reasons only known to them.

Every respondent is enthusiastic about attending the General Body meeting and insist on the conduction of such meetings regularly. General Body meeting is a place where there is an opportunity to the managing committee to persuade the loanees about problems, overdues, discrepancies etc., in person and also to appraise the actual position of the CHBS.
Many respondents who are prompt in repayment have expressed dissatisfaction about lack of necessary information because of which they have to unnecessarily pay penal interest. Therefore, the societies are advised to give the relevant information like due date of instalment, method of penal interest calculation, and such other practical formalities at the time of the release of loan. It is preferable if this information is printed in the pass book. This will certainly avoid over payments by prompt repayers.

Co-operative movement is a people's movement. This sector always aims at improving the welfare of the members. So is the case with the CHBSs. All the observations and recommendations enumerated above are on the basis of a close study conducted in this regard. The study is aimed at making the co-operative housing finance system purposeful and relevant to the public. Every possible effort has been put in, to study the various possibilities of making the co-operative housing finance more and more compatible and reinvigorate it to serve the purpose it is meant for.