CHAPTER-III

REVIEW OF LITERATURE AND RESEARCH METHODOLOGY
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In this chapter, an attempt is made to review the selected studies relevant to the subject of study and the methodology followed in this study. This chapter is divided in two parts. Part-I presents the selected review of literature and part-II gives a brief account of the methodology followed by the study.

Part - I

3.1 Review of Literature

The Report\(^1\) of the National commission on Labour (1946) reviewed the national housing policy. It pointed out that the Government wanted the housing programmes to be dependent on man-power and material resources and, at the same time, the Government seemed to be keen on making a start irrespective of the possible difficulties.

The Report\(^2\) of the Ministry of Works, Housing and Supply (1955-56) indicated that housing could not be given high priority in the First plan. Nevertheless, a beginning was made during the first plan period to a limited extent. Till then the responsibility of providing housing facilities, including for the poor, was that of private enterprise.

The Report\(^3\) of the Ministry of Works, Housing and Supply (1972-77) pointed out that the efforts of providing adequate housing stock in the country were undertaken jointly by the central and state Governments, even though under the constitution the subject of housing falls with in the state jurisdiction.
Naik⁴ (1973), in his study highlighted the need for formulation and enunciation of a healthy housing policy as an initial step in our efforts to tackle the housing problem in the country.

Ramachandran and Deodhar⁵ (1979), in their book entitled 'Monetary and Fiscal Policies and Investment in India have discussed the problems of housing investment in India. They recommended low cost housing schemes and co-ordination between housing finance institutions and money market.

Aravidakshan⁶ (1981), in his book titled 'A new Housing Policy for India' classified the difficulties of housing into three categories viz., organisational, financial and social. He suggested that the monetary agencies must have a wide network and must have continuous touch with borrower, besides giving motivation, leadership and training to the officials. He has also suggested that there must be constant supervision and direction by the lending agencies.

Rennad Betrand⁷ (1983), in his paper entitled 'Housing and Financial Institutions in Developing Countries' has pointed out that weak existence of borrowed capital in developing countries is the main cause for the inadequate development of housing. He suggested that the problem of housing finance could be solved only through reconciling three conflicting objectives:

a) Improving competitions
b) Increasing efficiency
c) Stimulating long term finance

Malhotra⁸ (1987), in his study on 'Financing of Urban Housing. A case study of Himachal Pradesh', suggested that the Reserve Bank of India should allow authorities and housing boards to float loans and give directions to nationalised banks to invest their surplus funds in loans.
floated by development authorities and housing boards. (At an interest rate not exceeding (7 per cent).

The United Nations General Assembly⁹ (1988), suggested that special attention should be given in the programme of shelter for the homeless by: a). securing renewed political commitment by the international community, b). consolidating and sharing all new and existing knowledge and relevant experience and c). developing and demonstrating new approaches and methods.

The National Commission on Urbanisation¹⁰ (1988), recommended that a whole series of down stream institutions, subsidiaries of banks, financial companies like HDFC and Co-operative banks should be set up both to collect deposits and savings and to provide the infrastructure for housing finance at field level.

Sundram¹¹(1988), suggested that the Insurance Corporation may be set up to extend insurance cover to the Housing loanees as housing loans are long term investments in nature is and involve considerable risk to the lenders.

Naser Munjee¹²(1988), stated that the mechanisms to link formal housing finance institutions such as HDFC with informal institutions working at micro level should be explored so that relevant institutions serve their constituents but at the same time be part of the networking of specialised institutions.

Sharma¹³ (1989) (Ed), in his book 'Housing Finance in India' reiterates that housing finance is one of the areas of public finance which has not received enough attention in the country. He has stated that its full potential is yet to be explored and exploited. It is also pointed out that the steep imbalance in the demand and supply situations has already
pushed housing prices quite beyond the reach of those very millions who require adequate shelter most.

Sharma\(^{14}(1989)\), observed that provision of houses at affordable costs to the clients and the steppingup of financial mobilisation for housing investments to bridge the wide gap presently existing between the requirements and the availability are the two parameters that largely guide the institutional development in the area of housing in the country.

Pandit\(^{15}(1989)\), argues that the 'household' is the only surplus sector in the economy. He suggested that by providing some kind of intermediation facilities the savings flow to the housing sector could be improved.

Chowdary\(^{16}(1989)\), observed that available and self reliant housing finance system is still a long way from reality in the country. He also pointed out that at present the provision of housing finance through formal sector institutions is not only limited but also mostly indirect.

Rao\(^{17}(1989)\), viewed that the subject of housing finance should include not only the construction of house structure but also the augmentation of infrastructural facilities.

The research study of Moorthy\(^{18}(1991)\), identified the problems involved in financing housing construction in Bangalore.

Malhotra\(^{19}(1991)\), observed that RBI, in recent years has been actively involved in the evolving of a sound and healthy housing finance system recognising that the volume of funds required to tackle the housing problem in the country is huge and the resources available for the purpose from the formal sources are inadequate.
Report on Trend and Progress of Housing in India (1992), noted that less than 20 per cent of the new housing units are financed by formal housing finance system and the non-availability of long term finance to the individual house builders has been the inhibiting factor for the growth of viable housing finance system in the country.

Hosangadi (1994), observed that the annual growth rate of housing finance companies' business has been around 30-35 per cent and their record has also demonstrated that by maintaining appraisal standards and strict monitoring, lending for housing is safe and viable.

Sivalingan (1995), in his research study has focused on the problems of housing finance as well as the house builders in Chennai.

NCAER (1996) conducted a study on various aspects of Housing finance. The following are the highlights of the study.

1. Housing is a critical bottleneck.
2. Barring HDFC, none of the other housing finance companies have availed themselves of foreign currency loans.
3. Apart from equity, NHB refinance lines and fixed deposits constitute a major source of funds to housing finance companies.
4. Need for transition by housing finance companies to gravitate from short maturity funds to longer maturity funds and to manage interest spreads.

Vinay Lal (1997), in his study has stressed the need for short term and long term resource mobilization policy. The short term strategy is to initiate the activities of the base level institutions and the long term strategy for aiming at large scale mobilization of savings of household sector.
Gurbir Singh\textsuperscript{25} (1997), in his study observed that there is a massive demographical movement from the rural to the urban areas necessitating creation of more housing stock in the urban areas of the country.

The National Housing and Habitat Policy\textsuperscript{26} (1998), stresses that affordable finance is the most critical input for housing in the country.

Venkateswarlu\textsuperscript{27} (1998), in his book 'Urbanisation in India: problems and prospects' stresses the need for facilitating housing finance institutions to reach out to uncovered markets by rendering suitable financial services and improving loan absorbing capacity of the uncovered segments.

Chiranjoy Sen\textsuperscript{28} (1998), in his study reported that the structured sources in the Indian housing finance sector are not backed by other sources which are prevalent abroad like mutual funds, venture capital funds, development trusts, real estate investment trust and debt securitisation. He has also observed that the sector till now has been marked by lack of institutionalisation.

Shelley Singh and Udayan Ray\textsuperscript{29} (2000), in their study identified that the increase in demand for housing loans has been spreading beyond the Metros into smaller towns and there has been a significant increase in loan disbursements in the small towns of the country in recent years. They have also pointed out that a combination of favorable conditions ranging from low and stable real estate prices and low interest rates is helping the prospective house owners realise their dreams.

Gayathri Nayak\textsuperscript{30} (2000), has reported that only 25 per cent of the total housing financing in the country comes from the formal housing finance market.
“Housing Problem in India (1901-70)” is a Doctoral thesis submitted by K.V. Verghese to Gokhale Institute of Politics and Economics Pune. Here in, the researcher has taken enough pains to present a detailed study of the housing finance in India, and he presented sector wise (i.e. public, private, co-operative sectors) information about Housing finance and analysed various sources of finance under all these sectors. He could succeed in producing qualitative information regarding some of the financial aspects concerning housing finance.

“Housing Problem in India” by Prof. G. J. Khudanpur (1971-76), Pune, a Doctoral thesis submitted to the University of Pune, is a study undertaken to project an overall view of the housing problem in India. He gave a reasonably good analysis about acute housing problem in the country taking the condition of developing economy into consideration. This study presents a good match between housing problem and Indian economy. But this was conducted for the period 1971-76.

“Housing Financing in India with Special Reference to Lower Income Group in Delhi” is a Doctoral thesis submitted to the Department of Commerce, University of Lucknow, Lucknow, India in 1981, by Bal Deo Chandar Sehgal. It gave an elaborate description of the evaluative and quantitative dimensions of housing problem. It explores demand for housing finance and the role played by formal sector institutions in providing housing finance.

Sharma (1987), suggested that the most appropriate way to direct the household savings to housing sector would be to utilise provident fund and Life Insurance fund.
“Housing for the weaker sections with special reference to Gujarat” 
Nayak Manjula35, a Doctorial thesis submitted to the Gujarat university, Gujarat, is a study in which more emphasis was laid on housing for weaker sections, besides clearly explaining the housing scenario of Gujarat with reference to the housing problems of the downtrodden.

D. Guruswamy36 (2003), stated that housing finance companies should strive to reduce the gap between the amount of loans sanctioned and the amount of loan disbursed and also increase their equity stake in order to reduce financial risk of their business.

R. Bhavani Shanker37 (2003), Officer, Karur Vysya Bank ltd. in his statement said Home Loan segment has received much impetus and is poised for stupendous growth against the background of the welcome initiatives offered in recent Budget towards infrastructure development. The Home Loan portfolio would help improve the percentage in meeting the bank’s priority sector obligation.

Robert M. Buckley, Jerry Kalarikal P38 (2006), in their article felt that improving the livelihoods and improving shelter conditions has undeniably desirable welfare effects.

Dr. Sudhakar Reddy. K Associate Professor, K.K.C institute of P.G Studies (2006)39 concluded in his paper, Commercial Banks and Housing Finance in India, that Housing Finance appears to be important in influencing effective demand for housing, although the terms and conditions on which the finance is offered have a critical impact on its effect. Based upon the preliminary research being carried out by the
World Bank, it appears that when formal finance is made available at high loan-to-value ratios—70 per cent or more—households use it to buy better houses than those purchased by similar households that do not have access to finance.

D. Krishnan, General Manager LIC housing Finance Ltd., in his paper Housing. Scenario in India (2007), stated that the housing scenario at a stage when the National Economy is on the road to revival, after reeling under depressive conditions over the last three years, and housing go through a bad phase, then the phase crossed, there has been a steadily revival and stabilisation of housing market will be constantly in demand. FDIs might end up strengthening this area by bringing in finance and steadying the construction industry through the joint venture route.

S.Sridher (2005-06), Chairman and Managing Director of National Housing Bank, made a statement that there has been a good deal of volume growth in extending finance to housing, but the number of houses funded has not been registering a correspondingly large increase. We are not creating a large number of dwelling units but building higher value houses. The share of rural areas in housing finance was less then 10 per cent in (2005-06).

Sudhakar Chetty (2000) made a study on “Housing Finance in India”. The conclusion of the study is:

Majority of the borrowers of housing finance institutions are facing problems with regard to rigidity of rules and regulations, offering surety / security, inadequate sanction of loan, delay in sanction, preparation of documents to be submitted along with the loan applications and incidental expenses.

L. Rajani (2008) made a study on “Housing Finance by Commercial Banks – A Study with Reference to Kadapa Corporation Andhra Pradesh”. She found that housing shortage would arise due to increase of population, internal and external movement of population changes in families and household structure. Hence, people heavily depended upon Housing Finance from the Commercial Banks.
Part – II

3.2 Methodology

3.2.1 Statement of the Problem

Finance plays a crucial role in housing construction. But investments in housing are normally locked up in the form of fixed assets. In contrast to industrial and agricultural sectors, investments in housing do not generate any substantial return to the investors. Further, the lending institution has to patiently wait for longer duration to recover the amount lent to the borrowers of housing loans as against agricultural and industrial financing wherein the recovery of loans will be completed much earlier. In case of housing finance, repayment of loan is not related to the income generated from the investment of the loan amount. It is the salary or other income of the borrowers in repayment of housing loans. It is thus evident that the nature of housing finance differs vastly from agricultural and industrial finance.

The future for housing finance in the country appears to be bright due to underlying strength of unlimited demand. The increasing market orientation provides wider opportunities and facilitates integration of housing finance system with the macro economy. However, it will also bring in its wake new set of challenges concerning viability and affordability. A concerted approach and strategy will have to be evolved for increasing the accessibility of housing finance to the vast majority of the population. The changing economic environment will impose new demands on specialized housing finance institutions. They need to deploy special skills and innovative measures for mobilizing resources in the competitive market as the resources from the allocated pool are being gradually phased out. Further, housing finance in India is at a nascent stage and the teething problems have to be sorted out to make investment in this sector more attractive.
In this context, an analysis of the role, cost and significance of different sources of housing finance is warranted. It is also significant to probe whether the pattern of mobilizing funds for housing differs in relation to the varied social and economic backgrounds of people. Another important aspect which needs special investigation is recovery of housing loans. It is also imperative to know about the performance and problems of specialist housing finance institutions in the country. All these issues call for empirical study.

3.2.2 Need for the Study

During the last two decades i.e. from 1981 to 2001, India's population increased from 685.2 million to 1027.01 millions at a growth of 441.81 million. Further, the Planning Commission observed that the population of small and medium towns as a share of total urban population has been increasing rapidly. The liberalization of economy and industrial push are likely to encourage mass migration from villages to urban centers. To absorb the leapfrogging urban population, the development of small and medium towns has become the primary concern of state and central governments. In this context, housing finance assumes much significance in these medium and small towns which have much potential for economic development and housing activity. Hence an attempt is made to study Housing finance by State Bank of India a study with reference to Chittoor district of Andhra Pradesh.
3.2.3 Objectives of the Study

1. To study the origin, growth and development of housing finance in India.
2. To examine the funds mobilised for construction of residential houses by the sample borrowers.
3. To analyse the repayment performance by the sample borrowers.
4. To identify the problems confronted by the sample borrowers and State Bank of India officials.

3.2.4 Sampling Design

The Chittoor District is divided into three Revenue Divisions namely Tirupati, Chittoor and Madanapalli. In Tirupati Revenue Division the total number of State Bank of India branches are 14, in Chittoor Revenue Division 14 and in Madanapalli Revenue Division 6. The total branches in these three revenue divisions are 34. Using two stage stratified random sampling with proportional allocation, 10 branches have been selected out of 34 branches at 30 per cent sampling in first stage.

In Tirupati revenue division, the total borrowers are 457, in Chittoor Revenue division 271, and in Madanapalli Revenue division 197. By using stratified random sampling, 231 borrowers have been selected as sample at 25 per cent from total 925 borrowers at the second stage. In Tirupati revenue division, the sample borrowers are 114, in Chittoor Revenue Division 68 and in Madanapalli Revenue Division 49. The selection of branches and selection of borrowers are shown in Table 3.1.
Data for the present study have been collected from both primary and secondary sources. The primary data relating to housing finance have been collected by canvassing a schedule from the state bank officials of the selected branch offices and sample borrowers. The secondary data was collected from various reports published by the Government of India, National Housing Bank (NHB), National Building Organisation (NBO) and Housing and Urban Development Corporation (HUDCO) Journals, books and daily Newspapers etc.

### 3.2.6 Reference Period

A five year period from 2002-03 to 2006-07 has been adopted for intensive study.

### 3.2.7 Statistical tools for Analysis

In the present research study, the various suitable tools such as $\chi^2$-test and Analysis of variance (ANOVA) techniques, percentages have been applied to analyse the empirical data. Besides these tools, the linear compound growth rates have been computed for the collected time series data.
3.2.8 Chapter Scheme

Chapter I

Introduction

This Chapter deals with introduction of house – Definition of house – Need for housing - constitutional provision for housing – future projection of housing - supply and shortage of housing – censes houses and their uses.

Chapter II

Housing Finance System in India

This Chapter refers to meaning and definition of housing finance - characteristics of housing finance - Housing finance system in India - kinds of Housing finance - origin growth and development of Housing finance system in India – Features of housing finance - Housing policies and programmes through plans – Role of National Housing Bank – National housing policy and Role of State Bank of India in housing finance - rural housing policy and sources of housing finance.

Chapter III

Review of Literature and Research Methodology

This Chapter contains various reviews – statement of the problem – Need for the study - objectives of the study – data Base – sampling design - period of study – Tools and techniques.
Chapter IV
Profile of Chittoor District and State Bank of India

This Chapter contains profile of Chittoor District-population-
Boundaries and Topography - Literacy - Soils - Geographical conditions -
Irrigation - Agriculture - Cropping pattern - Industries - Poultry - Dairy
- Sericulture - Profile of State Bank of India - Evaluation of State Bank
India Objectives of State Bank India.

Chapter V
Mobilisation of Funds for Construction of House by Sample Borrowers

This Chapter deals with mobilization of funds by the sample borrowers - Both formal and Informal sources - Repayment Performance by sample borrowers.

Chapter VI
Problems of Borrowers and State Bank of India Officials

This Chapter deals with problems of borrowers and problems of State Bank of India Officials.

Chapter VII
Summary of findings and suggestions

This Chapter contains findings of the study and suggestions to over - come the problems.
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33. Deo Chander Sehgal, "Housing Finance in India with special reference to LIG in Delhi" is a Doctoral Thesis submitted to the Department of Commerce University of Lucknow, Lucknow in India, in 1981.


35. Nayakmanjula "Housing for the weaker sections with special reference to Gujarat" a Doctoral Thesis submitted to University of Gujarat.


40. Shri D. Krishnan in his paper "Housing Scenario in India", 2006.


42. S. Sudhakar Chetty, (2000) made a study on "Housing Finance in India" the main conclusion of the study.

43. L. Rajani (2008) made a study on "Housing Finance by Commercial Banks – A Study with Reference to Kadapa Corporation Andhra Pradesh" the main finding of the study.