CHAPTER-VII

SUMMARY OF FINDINGS AND SUGGESTIONS
Housing is one of the basic necessities of life like food and clothing. The Indian constitution, under article 3, recognised housing as an important welfare activity. Housing is a Socio-Economic aspect; rural families use their houses as work places carrying on some economic activity. It is obvious that house is the central place in which man satisfies his basic requirements. Housing also influences the intellectual growth of the people. Investment in housing represents 20 to 30 per cent of fixed capital formation of a country and contributes 6 to 15 per cent of the Gross National Product (GNP). Housing construction is Labour intensive and provides employment to about 20 per cent of the total work force in the country.

7.1 Need for Housing

The concept of housing shortage is essentially linked to the concept of housing need. A working man spends a minimum of one-third and maximum of two-thirds of his life time at home. A house witnesses all important events in the life of human beings. Hence, a house is considered the most basic and crucial thing in the overall development of an individual. The equilibrium and well being of the society, it is reported, directly depend on the housing conditions of its inhabitants.

Housing deficit is ascertained by finding out the difference between demand and supply of house. We have deliberately avoided the use of term 'demand' for housing and used the term 'need' in the place of this, because housing demand in terms of economic theory should be backed by effective
capacity to pay either the price or rent. But in developing countries, especially in India, the question of economic price or economic rent is beyond the reach of majority of the persons. But in a welfare state a roof of reasonable standard should be provided over every head. Hence, they need housing.

7.2 Role of Housing in Economy

Housing is a commitment to the community and also a commitment to economic growth. Home ownership demands an increase in personal financial commitment, and in return a collective commitment to personal financial security. Investment in housing represents 20 to 30 per cent of fixed capital formation in developing countries with vigorous housing activity and it is increasingly recognised as a profitable investment item, yielding work.

7.3 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 family’s and house structure, lack of supply of sufficient number of houses etc. Housing has been increased from 15.2 million units in 1961census to 41 millions in 2001census.

Housing has significant role to play in human life as well as in India’s economic development, both as an end and as a means. But there is a huge shortage of housing stock in the country. Housing in India has been gradually increasing its importance and contributing to National income. But Paucity of finance is considered as one of the basic reasons for the shortage of housing.
7.4 Housing Finance

Housing Finance is a term which covers financing at all stages. The project of house construction is quite distinct from others. The price of house needs to be paid mostly in the form of cash at their use. Housing finance sector in India has been taking a structural shape since 15 years. House builders in the country too have realised the advantages of availing loans from the Housing finance Institutions (HFIs). But whoever they may be, they face certain problems in availing loans from HFIs. In this context, the present empirical research study, “Housing Finance by State Bank of India a study with Reference to Chittoor District of Andhra Pradesh”, is a modest attempt in identifying problems of borrowers of housing loans as well as banks. The study covers a review of housing finance system in the country at macro level and examines the problems of this system at micro level with special reference to Chittoor district. Housing Finance problem is that of mobilising short term resources which provide long term finance to the borrowers.

7.5 Growth and Development Housing Finance System in India

Every economic activity is always linked with sufficient finance or it can be stated that economic development is the function of finance. Housing being one among the several social services has been facing problem of inadequate financial resources since a long time. The individual household savings are not sufficient to construct dwelling units of their own and, as a result, there is a gap between demand and supply of dwelling units. It is estimated that Rs.1, 50,000 crore will be needed to meet the present millennium demand and supply.

Housing Finance System in India is the main subject. The Indian financial system expanded rapidly and, at the same time, experienced
reasonable stability since Independency days. The rapid increase of population and migration of rural people to urban areas and expansion of Industrial and commercial activities have created high demand for housing in urban centers. As a result, there has been a shortage of housing units in the country. As a specialised economic activity, housing finance is of recent origin in India. As a pioneering step towards establishing an institutional structure in housing finance sector in the country, the Housing and Urban Development Corporation (HUDCO) was setup in April 1970 under the public sector. Considering the magnitude and nature of assistance rendered by this organisation, it is obvious that it has played a key role in increasing the housing stock as well as infrastructure required for housing activity in the country. Another innovative institution, the Housing Development Finance Corporation (HDFC), was established in 1977 in the private sector. The basic objective of HDFC is to provide finance to individuals, co-operatives and corporate bodies for housing development by channelising household savings as well as funds from capital market into the housing sector. It aims at promoting “House ownership”. The HDFC’s performance in terms of mobilization of funds, utilisation of the same for increasing housing stock in the country.

7.6 National Housing Policy

For the development of the country the Government of India evolved a new National Housing Policy in July 1988. The objective of this policy is providing shelter to SC/STs, rural landless and freed bonded labour and upgradation of all kutcha houses in all urban areas and slums. It also specified that certain disadvantaged categories like the physically and mentally handicapped and the aged persons have very special requirements for housing.
Insurance corporation and commercial banks have been participating in housing finance activity in a low profile till recently. At present banks are statutorily required to provide housing loans to the extent of 3 per cent of their incremental deposits during the preceding year. Having recognised the potential of housing finance sector, the insurance corporations and commercial banks are coming forward to participate in the housing finance activity in a big way by establishing specialist housing finance institutions in the country. So far, LIC, GIC of India and 8 commercial banks have established their separate HFIs in the country.

As a sequel to the recommendations of various study groups and commissions, the NHB was established in 1988 to function as an apex bank in the country’s housing finance sector. The basic objective of NHB is to promote a sound, healthy, viable, cost effective Housing Finance System to cater to all segments of the population. Its motto is ‘Small Man First’ and it has been striving towards the goal of ‘Shelter for All’. After the establishment of NHB, several initiatives have been taken to strengthen the credit delivery system in the housing finance sector of the country. The NHB frames detailed guidelines for promotion and growth of HFCs. In a growing deregulated market regime, NHB on its part continued to shape the policies, and programs in the housing finance sector. As a consequence, there has been visible increase in the number of housing credit outlets in the formal sector.

7.7 Design and Methodology
Finance plays a crucial role in housing construction. But, investments in housing are normally locked up in the form of fixed assets. 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 for 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.

Housing Finance is extended by various Financial Institutions in Chittoor District. They include Commercial Banks, Co-operative Banks, LIC and Specialist Housing Financial Intuitions. The present Study is confined to State Bank of India Housing Finance. Hence, out of 34 State Bank of India branches, 10 branches are taken as sampling. During 2002-2003 to 2006-2007 State Bank of India extended house loans for 925 borrowers 25 per cent consisting of 231 borrowers are taken as a sample and expressed their opinions.

7.8 Mobilisation of Funds for Construction of Houses by Sample Borrowers

A complete assessment of the HFIs could be made only and that too in meeting the genuine financial requirement of their borrowers. It is possible through an examination of their needs, aspirations and satisfaction.
Housing finance institutions and banks are giving equal priority to males and females. In a developing country like India, Females are also influencing the economic activities of the family and also great portion of savings. But females are less than males in terms of persons who availed house loans. Age plays an important role in housing construction. In India people involve in constructing their own houses between 30 and 50 years of age to full-fill their dreams of constructing houses with help of the banks. In a Caste-based society like our country, social status undoubtedly plays a significant role in the house construction activity. But scheduled castes and scheduled tribes are weakest sections in our country. Hence, they are not availing housing loans from the Housing Finance Institutions. All sample borrowers are having 100 per cent educational background but Post Graduates and Graduates are availing majority of house loans from the Housing Finance Intuitions. The small businessmen, agriculturists and Technical/professionals find it very difficult to obtain housing loans from State Bank of India, since they have to produce so many documents to get loans. Size of the family has direct impact on the expenditure and savings. Medium size families show much interest in availing house loans from bank followed by large-sized families. Majority of the sample borrowers availing house loans belong to higher income groups, i.e., Rs between Rs1,50,000 and Rs3,00,000 lakh, and the above Rs 3,00,000 lakh yearly income group. More number of borrowers want to construct normal type of houses and only some borrowers want to construct duplex type of houses. Majority of borrowers want to construct three bed room houses.

Funds mobilisation is the most important in house construction activity. Hence borrowers are borrowing loans both from formal and informal sources. Formal source is providing a major share of funds to the
sample borrowers. State Bank of India is contributing upto 80 per cent to the house builders. With in Informal source, the share of own savings is the highest followed by others. Sale of Investments also contributes a major share of funds in construction activity and borrowers took a small portion of loans from Money lenders. Most of the borrowers are not availing house loans upto the 80 per cent of the estimated cost of construction because their income does not permit it. Contribution percentage by State Bank of India is high in three revenue divisions. Socio economic condition of the borrowers is very well. Hence, the repayment performance by sample borrowers in three revenue divisions is 100 per cent.

7.9 Problems of Borrowers and State Bank of India Officials

Borrowers constructing of residential houses face different types of problems while getting house loans from the banks. Out of 231 sample borrowers, 106 borrowers are facing problems, and the percentage of total sample borrowers works out to be 45.89 per cent. One of the problems confronted by the borrowers is providing surety/ security problem. It is followed by rigid rules insisted on by the bank, inadequate loan and preparation of documents. Delay in processing of loan application and more incidental expenses are also problems to small income group borrowers. More number of Borrowers in Tirupathi Division expressed problems than those of Chittoor division and Madanapalli Division. The borrowers facing problems are above Rs 3, 00,000 lakh and Rs 1, 50,000 Rs 3, 00,000 yearly income groups. Problem of cost escalation i.e., actual cost over estimated cost is common for all sample borrowers in three revenue divisions. Actual cost per housing unit is high in three revenue divisions. Estimated cost per unit is low in three revenue divisions. After conducting interviews with State Bank of India officials as well as sample
borrowers the following points were considered for cost escalation in three divisions. I. Regular hiking of raw-materials like iron and steel, and cement. II. Increase of labour charges, III. Non-completion of housing units with in the scheduled time. IV. Wastage of raw-material. V. Preferring high cost material in puts at the time of construction.

In Tirupathi division simple procedure formalities, early and timely disbursement of loan amount and rate of interest being low are the major factors for choosing State Bank of India for housing finance. In Chittoor Division early and timely disbursement, simple procedure formalities are major factors. In Madanapalli Division also early and timely disbursements and simple procedure formalities are major factors. 22.08 per cent of borrowers are preferred to early settlement of loan amount due to rate of interest is high and huge amount received. 44.15 per cent of borrowers preferred restructuring of loan amount and period of installments because of their socio economic conditions are poor. Regarding borrower's satisfaction in all the three divisions, 54.98 per cent of borrowers are highly satisfied, 39.39 per cent of borrowers are satisfied and only 5.63 per cent of borrowers are not satisfied with State Bank of India housing finance. To conclude State Bank of India is successfully maintaining good will among the borrowers to a large extent.

Problems of sample State Bank of India branches are examined in relation to demand for housing loans, gap between sanctions and disbursements, and recovery of loan installments from their borrowers. Taking annual sanctions as an indication of demand for loans in sample branches, it can be inferred that the demand for housing loans in Tirupathi division, Chittoor division and Madanapalli division shows upward and downward trends. In Madanapalli division annual sanctions
increased from 21.93 per cent to 27.96 per cent. In Chittoor division the annual sanctions increased from 3.42 per cent to 6.16 per cent and in Tirupathi division annual sanctions increased from -2.69 per cent to 1.29 per cent. The above annual sanctions are witnessing increasing trend. Regarding disbursement of housing loans in all three divisions sample State Bank of India branches have no problems. Most of the sanctioned amount was utilised by their borrowers. Recovery performance is better in Chittoor Division, followed by Madanapalli Division and Tirupathi Division.

7.10 Findings of the Study

1. Housing has significant role to play in human life as well as in India's economic development, both as an end and as a means. Housing shortage may arise due to increase in population. But there is huge shortage of housing stock in the country. Paucity of finance is considered as one of the main reasons for this situation.

2. The importance of housing in India has been gradually increasing and can be understood from its contribution to National Income, its share in Capital formation and employment generation.

3. As a specialised economic activity, housing finance is of recent origin in India. As a pioneering step towards establishing an institutional structure in housing finance sector in the country, the HUDCO was setup in April 1970 under the public sector. Considering the magnitude and nature of assistance rendered by this organisation, it is obvious that it has played a key role in increasing the housing stock as well as infrastructure required for housing activity in the country.
4. HDFC the pioneering specialist in housing finance institution in the country is considered as a model performer in the housing finance sector. It aims at promoting "House ownership". The HDFC's performance in terms of mobilisation of funds, utilisation of the home for increasing housing stock in the country.

5. State bank of India is extending house loans to the Agriculturists and Business people.

6. Majority of the sample borrowers of State Bank of India belong to the age group of 30 to 50 years.

7. The share of scheduled caste and scheduled tribes borrowers who availed loans from the bank is insignificant.

8. There is a huge gap between the estimated and actual cost of construction. The policies of the bank to allow sanction of housing loans upto estimated cost of construction. The bank considers only the income which is entered in official records like salary certificate and income tax assessment certificate. Hence, the share of bank in the actual cost of construction is less than 80 per cent of estimated cost. This situation leads to the house builders heavily depending on informal sources.

9. Most of the sample borrowers are facing different kinds of problems. Intensity of problem is felt by the borrowers with regard to Surety / Security, Rigid rules, inadequate loan amount, Preparation of Document, Delay in processing loan application and More incidental expenses.

10. State Bank of India confronts the problem of Recovery of loan installments to a certain extent.
7.11 Suggestions

1. Banks should modify their policies and rules to meet the financial needs of all categories of Housebuilders. In this regard, the government and NHB can evolve a sort of credit guarantee scheme to safeguard the interests of the Banks.

2. People have to be encouraged to take up house construction in their early age by offering more incentives to save money for purpose of house construction. Unique schemes on the pattern of Home Loan Account can be thought of in this regard.

3. Bank can suggest to the house builders to prepare the estimates realistically. They can sanction Home loan up to 95 per cent of the actual cost, taking into consideration future and other income of the borrower.

4. Banks can give multiple installment options to House loan borrowers. i.e., option to pay monthly, bi-monthly, quarterly, half-Yearly and Yearly installments,

5. Presettlement of house loans can be allowed without any charges. Further, the borrowers can be encouraged to repay the house loans ahead of their repayment schedule.

6. The repayment period should be increased up to the age of 75 years. The Banks should change fixed rate of interest to flexible rate of interest and vice-versa.

7. The borrowers also suggested that various savings linked plans should be launched by State Bank of India in which customers can save 3-4 years prior to availing the loan and special concession should be given to them at the time of availing House loan.

8. The government and NHB can take necessary steps to make available reliable and timely information on housing activity.

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