CHAPTER-I
INTRODUCTION

IMPORTANCE OF THE HOUSING
Housing is considered to be one the basic necessities of civilized life. It is observed that people having houses are more social, law abiding and conscientious about the inconveniencies of others besides having better health and contended life. A house represents an architectural unit in order to protect vagarious of nature. Housing inter-related with many basic amenities such as water supply, electricity, sanitation, waste disposal, roads, etc. Owned House is considered as reflector leading respectable life. It is the basic unit of an individual in society that segregates him from others and gives him an identity in that locality. Thus, it provides not only the basic need of shelter but also satisfies the other Hierarchical needs such as social needs and self actualization needs.

FACTORS AFFECTING THE GROWTH OF HOUSING NEEDS
The transformation of traditional society into a modern and stable society has positively affected the growth of housing needs. The said transformation is depicted as follows:
In addition to the above said transformation, the monetary and fiscal policies adopted by the state have also contributed to the growth of housing needs in the country. They include,

1 Decrease in marginal tax rates
2 Decline in the interest rate
3 Affordable Property Prices
4 Tax benefits and incentives for housing
5 Decline in the ratio of average house costs to annual income.
6 Affordable EMI
7 Aggressive tending by banks

Liberalization and privatization of Indian economy have also contributed indirectly to the growth of housing finance needs through the following effects;
1 Soft interest rates regimes prevailing in the economy
2 Growing income level of the consumers
3 High purchasing power
4 Buoyancy across all the sectors of the economy
5 Increase in investments
6 Tax incentives by Government
7 Increase in institutional finance

HOUSING FINANCE MARKETS IN INDIA

The Governments’ support to housing had traditionally been centralized and directed through the State Housing Boards and Development Authorities. In 1970, the central Government Setup the Housing and Urban Development Authorities Corporation (HUDCO) to finance housing and urban infrastructure activities. In 1977, Housing Development Finance Corporation (HDFC) was the first housing finance Company to be set up in India in the private sector.

The public sector insurance companies Life insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC) were also mandated to support housing finance activities, both directly through their housing subsidiaries (both established in 1989) and indirectly through a mandated requirement to invest a certain proportion of their annual accretion in socially oriented schemes which includes housing.
In 1988, the National Housing Bank (NBH) was established as a 100 percent subsidiary of the Reserve Bank of India, to promote housing finance through a refinance mechanism to banks, housing finance companies (HFCs) and other institutions and also to function as the supervisory and regulatory body for housing finance companies. Currently there are 29 HFCs approved for refinance assistance from NHB. Although commercial banks were the largest mobilizer of savings in the country, traditionally banks were rather reluctant to lend for housing as they preferred financing working capital needs of industry. Several banks had setup housing finance subsidiaries which functioned as independent units with little support or interest from their parent banks. The present study is intended to study the magnitude of Non Performing Assets (NPAs) in HDFC in Andhra Pradesh.

**HDFC** was incorporated in 1977 by **Mr. Hasmukhbhai Parekh** with the primary objective of meeting a social need - that of promoting home ownership by providing long-term finance to households. The launching of HDFC was meant to be one small step in dealing with the availability of housing accommodation in India which was then virtually non-existent. HDFC as a pioneer launched India's first specialized home loan company with an initial capital of Rs. 100 million.

1. The amount of housing loan given by the HDFC has been increasing. Individual house loan segment is predominant followed by corporate and others in the descending order. (Refer table-1)

**Table-1**

<table>
<thead>
<tr>
<th>Loan portfolio mix by HDFC</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Loan Portfolio Mix</td>
<td>Mar-11</td>
<td>%</td>
</tr>
<tr>
<td>-------------------</td>
<td>--------</td>
<td>---</td>
</tr>
<tr>
<td>Rs crore Individual Housing Loans</td>
<td>73,64</td>
<td>63%</td>
</tr>
<tr>
<td>Corporate Loans</td>
<td>42,14</td>
<td>36%</td>
</tr>
<tr>
<td>Others</td>
<td>1,337</td>
<td>1%</td>
</tr>
<tr>
<td>Total Loans</td>
<td>1,17,1</td>
<td>100%</td>
</tr>
</tbody>
</table>

2. In absolute terms the amount of NPAs has increased during 2007 to 2011. But the percentage of gross NPAs has declined during the same period. (Refer table-2)
### Asset Quality

<table>
<thead>
<tr>
<th></th>
<th>Mar-11</th>
<th>Mar-10</th>
<th>Mar-09</th>
<th>Mar-08</th>
<th>Mar-07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross NPAs</td>
<td>904</td>
<td>783</td>
<td>702</td>
<td>621</td>
<td>534</td>
</tr>
<tr>
<td>Provisions</td>
<td>1124</td>
<td>656</td>
<td>622</td>
<td>470</td>
<td>410</td>
</tr>
<tr>
<td>Net NPAs</td>
<td>-</td>
<td>127</td>
<td>80</td>
<td>151</td>
<td>124</td>
</tr>
<tr>
<td>Gross Advances</td>
<td>117,127</td>
<td>97,967</td>
<td>85,198</td>
<td>73,328</td>
<td>56,512</td>
</tr>
<tr>
<td>Net Advances</td>
<td>116,223</td>
<td>97,311</td>
<td>84,577</td>
<td>72,528</td>
<td>56,103</td>
</tr>
<tr>
<td>Gross NPA%</td>
<td>0.77%</td>
<td>0.79%</td>
<td>0.81%</td>
<td>0.84%</td>
<td>0.92%</td>
</tr>
<tr>
<td>Net NPA%</td>
<td>Nil</td>
<td>0.13%</td>
<td>0.09%</td>
<td>0.21%</td>
<td>0.22%</td>
</tr>
<tr>
<td>Provision Cover</td>
<td>100%</td>
<td>84%</td>
<td>89%</td>
<td>76%</td>
<td>77%</td>
</tr>
<tr>
<td>Net NPA/Net-worth</td>
<td>Nil</td>
<td>0.84%</td>
<td>0.61%</td>
<td>1.26%</td>
<td>2.24%</td>
</tr>
</tbody>
</table>

### STATEMENT OF THE RESEARCH PROBLEM

Increasing NPAs in personal segment is a matter of great concern at all levels in Banking Industry. Boom in housing Loans in recent past brought retail loans on forefront. Under retail segment, housing loans were considered as a very safe advance initially but slowly NPAs have stated cropping up in their area as well as such to check growth in NPAs became top most priority.

The commercial housing finance companies are justified in their applying norms for sanction of loans because government fixed certain norms for non-performing assets to them. A housing loan in which the principal and interest portion is remaining unpaid for 90 days consecutively will be viewed as likely default of the same and there is every chance of it being becoming a non-performing asset. Reserve Bank of India, on the other hand, issued specific guidelines and stringent norms regarding NPAs in housing sector. Hence, NPAs has become a matter of serious concern for all.
Housing loan is easily available now in the market by various Housing finance companies. Commercial Banks especially have taken a lead in this area because of their large network. Due to cutthroat competition, many incredible offers are given to customers to drag them. As the competition in the housing sector has become intense, the systems and procedures for disbursing loans have been diluted to a large extent in turn affected adversely the quality of assets and borrowers. Over all exposure of banks in the housing loan sector has been growing and today it constitutes a very significant portion of their total credit portfolio and in turn NPAs are also increasing which is a matter of concern. Increasing NPAs are a drain on the profitability of the concern. It is the reason which prompts HFCs to take bold steps to reduce NPAs drastically and improve their standards.

Ensuring quality of asset for 15 to 20 years is an important task for the Housing Finance Companies. The success depends only upon how effectively they can use the alternatives available for recovery of NPAs. This difficult task but can be made easy if strategic and meaningful efforts in right direction are continued. Hence, the present study is initiated to identify the reasons for mounting NPAs in the arena of housing finances in India and to suggest remedial measures for the said problem.

The present study entitled “AN ANALYSIS OF NON-PERFORMING ASSETS OF HOUSING FINANCE IN INDIA- A CASE STUDY OF HDFC DURING 1998-2008” is initiated to fill the said gaps identified in the earlier studies with the following objectives and hypotheses.
OBJECTIVES OF THE STUDY

1. To study the reasons for the option of housing finance.
2. To study the socio-economic profile of respondents (NPA holders) of housing Finance.
3. To analyze the determinants of NPAs in housing finances.
4. To account the perceptions of both borrowers and lenders about the remedial measures to the problems of NPAs in housing finance.
5. To suggest effective measures to minimize NPAs in housing finance.

HYPOTHESES OF THE STUDY

1. The relationship between income of the households and the size of NPAs in housing finance is assumed to be insignificant.
2. The relationship between size of home loan and the size of NPAs are directly related.

METHODOLOGY

To cover the objectives and hypotheses, the following methodology is adopted.

SAMPLE DESIGN
In order to identify the reasons for NPAs in housing finance 200 NPAs account holders (borrowers) and 50 respondents (bankers) of HDFC are selected mostly by adhering to the principle of stratified random sampling. The NPA account holders are selected from Nalgonda district, Hyderabad and Secunderabad of Andhra Pradesh. Out of a total of 753 non performing assets in housing finance of HDFC bank in twin cities of Hyderabad and Secunderabad, approximately 20 percent of accounts selected for the purpose of the present study (155 respondents). From Nalgonda district 50 percent of the total NPA accounts (90) that is 45 NPA account holders are selected for the purpose of this analysis. 50 bankers are also selected from the study area based on their designation.

**SCOPE OF THE STUDY**

The current research effort confined itself to the study of the factors responsible for NPAs in housing finances. It did not cover the other aspects of housing finance which include rules, laws, regional distribution, social distribution of housing finance, etc.

**SOURCES OF DATA**

The study is based on both primary and secondary Sources of data.

The secondary sources of data included RBI’s Reports NHB, and HDFC.

The primary data were collected directly from the respondents by administering a pre-designed and tested questionnaire/schedule with regard to the factors responsible for NPAs and remedies.

**PERIOD OF THE STUDY**

The study covered the period of 1998 to 2008 for sake of the magnitude of NPAs in housing finance provided by the HDFC. In order to account their perceptions with
reference to the factors responsible for NPAs and for their remedies for the problems data were collected in 2010-11 financial year.

TECHNIQUES OF ANALYSIS

The present study employed various tools of statistics including simple percentages, frequency distribution, coefficient of correlation, Chi-Square statistic to test the significance of relation between qualitative variables.

\[ R = 1 - \frac{\Sigma d^2}{N (n^2 - 1)} \]

Where
- \( R \) = Spearman’s rank correlation coefficient
- \( d \) = deviations
- \( n \) = number of items

\[ \chi^2 = \Sigma \frac{(0i - Ei)^2}{Ei} \]

When \( \chi^2 = \) Chi-Square statistic

- \( 0i = \) Observed frequencies of the ith class
- \( Ei = \) Expected frequencies of the ith class