CHAPTER-VII

Summary and Suggestions
7.1. INTRODUCTION

The basic needs of mankind are food, clothing and shelter. After food and clothing, housing is the primary need of the human beings. House brings a profound social change in the existence of a person and provides an identity to him in the society. A house provides social and economic security. It is to be understood that everyone wants to have house constructed either through own money or borrowed funds. Housing finance is a term which covers financing at all stages in the development of housing—purchase of land, construction and installation of on-site infrastructure.

Source of Housing Finance can be broadly categorized into three sectors viz., public sector, private sector and co-operative sector. Public Sector covers central, state governments, State Housing Boards and Public Finance Institution and Development Authorities. Private Sector represented by builders, developers and private housing development agencies. Co-operative sector is represented by housing co-operatives, the district and central co-operative banks, and urban co-operative banks.

Government had given importance of housing in the national economy after immediate Independence. The government has taken steps to formulate a National Housing Policy. Five Year Plans have been formulated by the government for the development of housing. The critical problem of housing finance is that of capital mobilisation for construction purpose. Both private and public agencies are invested in construction of housing sector. The total investment invested in the economy during the First Five Year Plan was Rs.3,360 crore and this investment increased upto Rs. 36,44,000 crore during the Eleventh Five Year Plan period. Similarly, the investment in housing also increased from Rs. 1,150 crore to Rs. 11,22,334 crore during the period.

The financial crisis has certainly impacted the developing world in an adverse way, but a lot of countries in the developing world have managed to get out of the doldrums and resumed their growth trajectory. The global financial crisis started visibly impacting the Indian economy from September-2008 onwards. Gradually, it spread over all the sectors of the economy. In India we have felt the heat of the
financial melt down where else in the world by way of softening of the earnings of software companies and with double-digit inflation. The stock markets in India also crashed to a record low level and an overall high rate of interest heated the economy. Despite the set backs, the Indian banking sector appears to have escaped the rough weather. Not only have the public sector banks fared well, even private banks have kept their profits intact. This was evident from the financial results of banks in India for Financial Year 2008-09.

Indian banking sector is dominated by the government owned public sector banks which account for 69.9 per cent of aggregate deposits and 72.7 per cent aggregate advances of all scheduled commercial banks as on March-31, 2008. The year 2008 saw several ‘run on banks’ events in the western countries like the US and UK resulting in collapse of several banks and financial institutions. But due to the government ownership and public faith that their money is in safe hands, such a situation did not arise in India. The enormous faith of Indian public in public sector banks kept banks afloat in India even during the most turbulent time for the financial world.

Despite the global financial crisis the emerging Indian economy with stood the crisis reasonably well compared to other advanced and emerging economies because of substantial foreign exchange reserves, a healthy banking sector and robust corporate balance sheets. Besides the RBI has played a very important role by not allowing banks to enter into risky businesses. The financial crisis had slowly but steadily started to make its impact felt in the Indian economy. As institutional investors started to pull out funds from Indian markets, liquidity became a cause of concern. As consumer and business confidence dipped, banks were reluctant to lend and consumers were reluctant to borrow. Owing to shrinking liquidity and negative business sentiments, home loan rates went northwards. In general, the interest rates on housing loans have gone up significantly over the past few years. From around 7.5 per cent, the rates have gone up to less than 10 per cent and from there; it has gone up to more than 12.5 per cent in June 2008.

The housing sector growth had slowed down drastically during 2007-08 due to a combination of factors like high property prices, shrinking liquidity, high interest
rates and negative/risk averse buyer sentiment. The 'liquidity crunch', perpetrated by this global financial crisis, has made homebuyers increasingly conservative and watchful with respect to their purchase and investment behavior.

7.2. SUMMARY OF FINDINGS

Housing finance has now been attracting a lot of attention in the country and the role of housing finance institutions in alleviating the housing problem in India has gained crucial importance. In fact, during the past two to three years the growth in housing finance is very high and exorbitant and the competition in the home loan industry is heating up with players constantly innovating and coming up with new ways to promote their products. This competitive growth is good for the consumer, for the lending institution, it could spell higher Non Performing Assets (NPAs). The unhealthy competition influences the reduction in interest rates and margins there by it will effect the asset liability mismatch of loans and also return on investment.

The flow of credit to the housing sector has shown phenomenal growth mainly an account of contributions of HDFC, LIC, HFC’s and Commercial Banks which have emerged as significant players in the housing finance system. The growing rate of population needs more investment in the housing sector. The shortage of housing stock which stood at 7 million in 1901 reached to 22.9 million in 1991 and 24.7 million by 2001. The Eleventh Five Year Plan has estimated that the housing shortage is likely to go up to 26.53 million during this plan period (2007-2012). The housing sector has now been recognized as a potent engine of economic growth and the authorities at the higher levels identified “Housing for All” as a priority area in the agenda for governance.

The study aims at to analyze the housing finance provided by different Housing Finance Institutions (HFLs) in Andhra Pradesh. Among the Financial Institutions LICHFL, HDFC Bank, SBI and ICICI Bank are purposively selected for the study because they belong to different institutional categories; wide coverage; and dominant share in the quantum of housing finance.
7.2.1. Institutional Setup for Housing Finance in India

The housing finance sector was dominated by informal resources till the late eighties. There were few lenders of housing loans which included Life Insurance Corporation of India, Housing and Urban Development Corporation (HUDCO), Housing Development Finance Corporation (HDFC), and Apex Cooperative Housing Finance Societies (ACHFS) with no particular support existing for the formal sector. The main aim was to channelize resources to housing sector through budgetary allocations especially for Economic Weaker Section (EWS) housing/ housing for migrated population. The housing finance industry has grown robustly over the last few years. This is due to the fact that the housing finance industry is very competitive today; lending rates are at an all time low and lenders are offering attractive packages to customers.

The National Housing Bank (NHB) was established in 1988, as a wholly owned subsidiary of Reserve Bank of India (RBI) to operate as a principal agency to promote HFIs both at local and regional levels and to provide financial and other support incidental to such institutions and for matters connected therewith. The National Housing Bank provides funds to housing sector through its refinance scheme for banks, HFCs and state level ACHFS. Under the ambit of the NHB, institutional credit disbursals are being made through 43 HFCs. Commercials banks are the largest mobilizers of savings in the country. Several commercial banks had set up housing financing subsidiaries which functioned as independent units with support from their parent bank. The HFCs market is dominated by large players such as HDFC, LIC Housing Finance Limited, Can Fin Homes, Dewan Housing Finance Limited, Sundram Home Finance, Repco Home Finance, GRUH Finance Limited etc.

> Formal Sector

At present, the need for housing finance in India is largely being fulfilled by the 43 HFCs registered with NHB and the 27 Public Sector Commercial Banks. Apart from these, various other institutions are also involved with housing finance. The following types of institutions are in operation for extending housing loans to the Indian borrowers in the formal sector:
(a) Scheduled Commercial Banks;
(b) Housing Finance Companies and Specialized Housing Finance Institutions;
(c) Scheduled Co-operative Banks (Scheduled State Co-operative Banks, Scheduled District Co-operative Banks and Urban Co-operative Banks);
(d) Regional Rural Banks;
(e) Agriculture and Rural Development Banks;
(f) State Level Apex Co-operative Housing Finance Societies, and
(g) Non Banking Finance Companies / Self Help Groups.

In addition to the above formal organizations, A.P. Housing Board, A.P. State Housing Corporation and A.P. HOUSEFED are provides direct and indirect housing finance to borrowers in Andhra Pradesh.

> Informal Sector

In our country, the informal sector has played a significant role in extending financial assistance for housing, especially to the poor and low-income households. The informal sector has been in a position to expand its activities because of the inaccessibility of the formal sector to the poor and the low-income group people. The informal sector has been quite successful despite several disadvantages because of the absence of cumbersome formalities.

Among informal sources the lion's share is accounted for by the households' personal savings. The other informal sources are the own money of households adjusted by disposing off their other physical assets like own savings and borrowings from relatives, friends and money lenders. The reference to provision of housing loans to employees and sale of houses on hire purchase basis is also worth mentioning under informal sector though it is not easy to judge the extent of contribution made by this group to the housing sector due to non-availability of accurate information.

7.2.2. Housing Loan Operational Appraisal Practices

To cater the diverse needs of housing in India, the Housing Finance Institutions (HFIs) have tailored a variety of housing finance schemes with various terms and
conditions, which make one housing agency different from other in the customer point of view. The housing agencies do not finance the full cost of the house and the owners-borrowers have to bring in the margin money for the loan from their own resources as a part of the cost. The quantum of loan is determined on the basis of two different parameters; (a) First on the basis of income of borrower, the eligibility for the quantum of loan is arrived at in manner that the installment does not exceed 30 per cent of income of the borrower; (b) Second parameter is based on the estimated cost of construction less necessary margin requirement. The quantum of loan is the lower amount arrived at on the basis of (a) or (b) above. The loan amount is further subject to a ceiling of the HFI. The normal security for the housing loan is mortgage of property purchased from the proceeds of the loan.

The individual home loans are sanctioned by HFI for a specific purpose of construction or purchase of house. The quantum of loan is 80 per cent of the cost and based on the repayment capacity of the borrower. The eligibility conditions, processing fee, maximum and minimum loan limits, security, insurance, margin money, term and repayment conditions for house loan is analyzed in detail. The loan is repayable in equated monthly installments within a maximum period of term opted by the borrower. In the case of prepayment also penalty is imposed by the HFIs.

7.2.3. Interest Rates and their Impact on Housing Loans

There are two kinds of interest rates for housing finance - Fixed rate and Floating rate. In the former, the interest rates are generally fixed during the entire term of the loan, whereas, in the latter the interest rates are dependent on the market situation and are greatly affected with the ups and downs of the housing market. The housing loan products offered by HFIs are either on a fixed rate of interest or floating rate of interest or a hybrid of both depending upon the tenure and type of housing loan products. Despite the rising interest rate, home loans grew by about 20 per cent during 2008-09. The loans from banks and housing finance companies grew at the rate of 14-15 per cent and 24 per cent respectively.

7.2.4. Reverse Mortgage Loan (RML)

Reverse Mortgage Loan (RML) seeks to enable house owning Senior Citizens to meet their financial needs without selling their property. The reverse mortgage is so
named because the payment stream is “reversed” i.e. instead of the borrower making monthly payments to a lender (as in a conventional mortgage), a lender makes payments to the borrower. The senior citizen borrower is not required to service the loan during his lifetime and therefore does not need to make monthly repayments of principal and interest to the lender. Consequent upon the borrower’s death or his leaving the house property permanently, the loan, along with accumulated interest, is recovered by the lender through sale of the house property. The borrower(s)/or their heir(s) have the option to repay or prepay the loan along with accumulated interest, and thus, have the mortgage released without the lender having to resort to sale of the property.

In India, Reverse Mortgage has witnessed a slow start owing to several reasons. Lack of product awareness and Indian society’s norms seem to work against the scheme. A possible motivation for avoiding the reverse mortgage market is a strong motive to bequeath. India still has a strong joint family culture, with the younger generation supporting the elderly, which to an extent, obviates the need for the elderly to opt for such schemes, unlike in the Western Countries.

7.2.5. Frauds in Housing Loans

RBI’s Trend and Progress Report for 2005-06, shows that the amount involved in banking frauds has increased to Rs. 1,381 Crore from Rs. 779 Crore last year i.e. 2004-05 with an astounding rise of 77 per cent. It reached to Rs. 1,883 Crore by the year end 2009. The number of fraud cases reported has also risen from just 10,450 to 23,914 during the period. One estimate suggests that home loan frauds in Public Sector Banks from 2007 to 2009 were around Rs. 1000 Crore. Experts suggest that the quantum could be much more in private sector banks. Commonly Occurring Fraud in Housing Loans are:

- Fraud through fake title deeds/property papers;
- Fraud through fabrication of income certificates/ Balance Sheet;
- Over valuation of the property;
- Frauds in under construction flats; and
- Centralised registry of title deeds.
7.2.6. Non-Performing Assets (NPAs) in Home Loans

All over the world most of the employees lost their jobs and some other's salaries were lowered tremendously. As a result they are not able to pay their loan installments regularly. Hence recently banks have been issuing notices to the defaulters and imposing auctions also. At this juncture most of the defaulters feel that it is better to lose the flat rather than paying installment though the value of the flats is lesser than the loan, there is no way for the banks instead of imposing auction. There is no change in NPAs of commercial banks for the year 2007-08 and 08-09. Both in 2008 and 2007 it is 1.1 per cent. Old private sector banks has increased to 0.7 per cent whereas the new private sector banks NPAs is enhanced from 1.4 to 1.6 per cent and in foreign banks the growth rate is from 0.8 to 1.7 per cent.

7.3. CLASSIFICATION OF SAMPLE BORROWERS

❖ Age wise Classification

The Age wise Classification of sample borrowers reveals that there is no significant relationship between the age of the borrowers and sanction of loans.

❖ Gender wise Classification

The Gender wise classification of sample borrowers also proves that there is no significant relationship between Gender and Sanction of the home loan.

❖ Monthly Income wise Classification

Highest percentage of loans have gone to the high income groups. ICICI, HDFC and LICHFL have given more than half of the loans, i.e. 65.3 per cent, 62.7 per cent and 57.4 per cent to this category respectively. In contrary with others SBI, being a public sector bank has given priority to middle and low income groups. Monthly Income wise classification of the sample borrowers reveals that there is a significant relationship between the Monthly Income of the borrowers and the sanction of loans.
Educational Background wise Classification

The Educational Background wise classification of sample borrowers proves that there is no significant relationship between borrowers education and sanction of home loan.

Occupation wise Classification

The Occupation wise classification of sample borrowers proves that among all the occupations, employees have taken the highest share of loans i.e., 66.7 per cent, followed by business and agriculture with 30.0 per cent and 3.3 per cent respectively. HFI-wise data also reveals the same pattern. All the banks have given top priority for employees by sanctioning between 57.3 per cent and 73.3 per cent of total loans. The reason might be that employees have fixed income source and the HFIs can deduct their loan installments at source itself.

7.4. PROBLEMS OF SAMPLE BORROWERS

Borrowers of residential house builders are facing number of problems while getting sanction of housing loans from different commercial banks and financial institutions. The problems of the sample borrowers include preparation of documents, delay of sanction, surety and security, rules and regulations, incidental expenses, insufficient loan amount, insurance cost and pre-payment burden, etc.

Sample borrowers of home loans are facing different problems in the process of sanctioning and in the repayment of the loans. The intensity of the problems varied from borrower to borrower and from HFI to HFI. The problem of arranging surety and security is difficult in some cases and problem of rules and regulations in some HFIs. The incidental cost and processing fee is high in few financial providers which is a problem of a borrower. The delay in sanctioning of loan caused to a serious inconvenience to the house loan borrowers. Some of the sample borrowers faced difficulty in the preparation of documents. Pre payments of loans are also penalized and creating another difficulty to the borrowers.
Problem of Documentation

Out of 300 sample borrowers from all the sample HFls, 60 sample borrowers feel difficulty in the preparation of documents for sanction of the housing loans.

Problem of Guarantors Arrangement

Out of 300 sample borrowers from all select HFls, 98 (32.7 per cent) experienced the problem of difficulty in arranging guarantors.

Problem of Cost of Legal Opinion/ Stamp Duty

Out of 300 sample borrowers, around 40 per cent (120 borrowers) expressed the legal opinion/stamp duty charges are heavy.

Problem of Processing Fee

Out of 300 sample borrowers 87 borrowers (29.0 per cent) viewed that the processing fee charged by their HFls is high.

Problem of Delay in Sanction of Loans

About 19 per cent of the total sample borrowers got sanctioned loans not in time and there is a delay in getting them. Out of 300 total sample, 81.0 per cent expressed that their home loans processed and sanctioned in time.

Problem of Cumbersome Loan Appraisal System

Out of the total sample of 300 borrowers 31 per cent stated that the loan appraisal system is cumbersome.

Problem of Insufficient Loan Amount

Out of the total sample of 300, only 5 per cent suffers a lot due to insufficiency of loan.

Problem of Pre-payment

Penalisation of pre payment is another problem of the sample borrowers. It is obvious that some borrowers are willing to pay the outstanding balance before the repayment period. In this connection, instead of reducing the interest for early
repayment, select HFI s are taking 2.0 per cent of penal charges from the outstanding balance. Some of the borrowers have the experience of switchover from one HFI to another. In these cases, the HFI s recovered more than that of the actual outstanding balance from the borrowers. The penalization varies between 1.0 to 2.0 per cent.

**Problems of Insurance Coverage**

Out of the 300 total sample borrowers, 212 (70.7 per cent) borrowers are not under insurance coverage, which is a difficult one when unforeseen events take place in the repayment period.

**Problem of Delayed Disbursements**

In the field survey, it is identified that some of HFI s disburse the home loans in 3 to 4 installments. Some banks disburse the last installment after completion of the house in total. It is difficult to the borrower to meet the expenses if disbursements delayed. It is observed that some HFI s like ICICI, LICHFL disburse huge amounts in the initial installments which is most convenient to the borrower who intends to complete the construction work as per schedule.

**Problem of Repayment**

It is the responsibility of the borrower to maintain sufficient funds in the bank account to meet the EMI regularly without any default. most of the housing loan borrowers made their repayments regularly. 94.0 per cent of the total sample proved that they are very regular in repayment of installments. But 6.0 per cent of the sample borrowers are not paying the EMI regularly and became default due to loss of job, insolvency and death.

**7.5. SATISFACTION LEVEL OF THE SAMPLE BORROWERS**

Out of 300 sample borrowers, 265 constituting 88.3 per cent are satisfied with their lending HFI s, while 14 sample borrowers constituting 4.7 per cent are highly satisfied. And, 21 sample borrowers constituting 7.0 per cent are dissatisfied with their HFI s. Thus, it is clearly understood that the majority of sample borrowers are satisfied with their lending agency. In spite of the high interest rates and processing fee, delay in sanction, insufficient loan amount, switchovers, penalized prepayments majority of the sample borrowers i.e. 88.3 per cent expressed their satisfaction because they are
enjoying own house through home loan and their dreams came into reality. They forget about all the problems which they came across while entering into their own houses in a relaxed mode and expressed their satisfaction regarding home loan.

7.6. PROBLEMS OF THE SELECT HFIs

Like borrowers, the HFIs are also facing some problems. Problems like gap between sanctions and disbursements, recovery of installments, problem of identifying accurate authenticity of title deeds, recovery of NPAs, problem of auction under SARFAESI Act. and problem of temporary personnel etc.

7.7. SUGGETIONS TO OVERCOME THE PROBLEMS OF BORROWERS AND HFIs

- To avoid delay in documentation submission of documents through on-line may be implemented. Common or uniformity in documentation is advised in all HFIs.
- To avoid the fake documentation and malpractices, Government should introduce new technological system of documentation in respect of Revenue Records and property evidences.
- Third party guarantor arrangement is one of the major problems of the borrowers. To avoid this type of risk HFIs are suggested to offer or seek self income or property as the guarantee for the sanction of loan.
- The cost of stamp duty and legal opinion for the sanction of a loan is more expensive. It should be minimized.
- There is no fixed rate in processing fee for sanction of a home loan by the HFIs. Some times it is free of cost and some times it is at a higher cost level. So, it must be a standard or uniform.
- The HFIs should follow strictly the time norms of sanction of loans to avoid the delay in sanction.
- HFIs shall guide the borrowers in the preparation of the estimated cost plans to get quick sanction of loans.
- Instead of cumbersome procedure in the loan appraisal system, it should be simplified and easy to access by all the borrowers.
Insufficient loan causes serious inconvenience to the borrowers. They may borrow money from private lenders which is costlier. Hence, the gap between actual requirement and sanction should be minimized.

The pre-closure of home loans are also become burdensome. The HFIs should avoid penalties in pre-payments or huge re-payments.

Home loan becomes a burden to the heirs when any unavoidable risk takes place. Hence, risk insurance coverage must be initiated. Further, the insurance charges should be included in the EMI of the loan.

Delay in disbursement of a loan sanctioned is a cause of worry to the badly need of funds to the borrower and as well as it is a loss of income in terms of interest accrued to the HFI. So, at a possible extent it must be simplified for early disbursement of loan sanction.

Delay in repayment of loan is a route cause of higher level of NPAs. Sufficient care must be taken by all the borrowers in regular repayment of loans to avoid the level of NPAs.

HFIs should take the full advantage of SARFAESI Act to reduce their higher level of NPAs.

HFIs should provide finance not only for construction of house but also for purchase of plot. So that, borrowers need not depend upon money lenders who charge very high rate of interest.

HFIs depend upon temporary personnel in the process of sanction of home loans. Such staff do not have sufficient responsibility and accountability. Hence, responsible and regular staff only should take the task of process of sanctioning of loans. Then only the failure of re-payment and recovery of loans can be minimized.

The NHB should monitor and issue necessary guidelines to the HFIs from time to time with regard to minimum and maximum limit of loan, processing fee, documentation process, interest rates, etc., to maintain uniformity among them.