CHAPTER – I

INTRODUCTION AND
METHODOLOGY
CHAPTER - I

INTRODUCTION

Housing is a basic human need like food and clothing. Housing has been termed as the "Engine of Growth for the Economy". Housing has a direct impact on employment and income generation. It has various backward and forward linkages and is linked to a host of industries and vocations. Further, a dwelling is defined as a holding space, a physical and psychological envelope within which every individual can find an opportunity to be himself, along with the family.

The Technical Group on Housing Shortage has estimated the housing shortage in urban India at 18.78 million units in 2012. 95 per cent of the shortage of housing is in the Economically weaker section / Low Income group segments. The need for low cost, safe and affordable housing to achieve inclusive growth cannot be overemphasized.¹

1.1 CONCEPT OF HOUSING

The word ‘housing’ can be used as a noun or as a verb. When used as a noun, housing describes a commodity or product. The verb to ‘house’ describes the process or activity of housing. Whereas shelter is place or house whereas person lives. The concept of housing is a dwelling place owned and controlled, constructed by the occupants themselves or by any other but enjoyed for the time being. The main ingredients of concept of housing are:

i. A residential house;
ii. Constructed by the occupants or by any other and
iii. Having minimum living facilities.

¹ Report on trend and progress of housing in India 2013.
Housing is not just a question of house. But, a world of community and cosmos for building and nurturing. Thus, for maintaining social, cultural, economic and political systems which permit human beings not just to survive, but hopefully to proper.\(^2\)

In the hierarchy of basic human needs, shelter occupies third place only after food and clothing. According to Maslow’s need hierarchy theory, after the satisfaction of one want; another want will arise for human being. This implies that an individual after satisfaction of food and clothing needs thinks of the house or good accommodation.\(^3\)

### 1.2 IMPORTANCE OF HOUSING

Investments in the housing sector, across the entire spectrum from luxury housing to low income housing, contributes to economic growth. This has been demonstrated across the world in developed as well as developing economies. Housing has also been termed as the "Engine of Equitable and Balanced Growth for the country" and is recognized as an important contributor to development and civil life.

The house-building industry is a major employer with strong and large multiplier effects. Further, housing is increasingly seen to have social consequences and diverse economic effects. The housing industry is one of the largest employment generator in India, only second to agriculture. The housing sector in India is ranked 4th as per multiplier effect in terms of income generation

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ahead of agriculture and transport. The housing and real estate industry ranks 3rd, amongst 14 major industries in terms of its linkage effect.

Mortgage lending has significantly contributed to the growth in housing production (construction) and housing consumption activities. Outstanding Mortgage debt in the country accounts for nearly 9 per cent of India's GDP. A host of vocations and professions directly or indirectly derive their livelihoods from housing which include construction workers, builders, developers, suppliers, civil engineers, valuers, property consultants, furnishers, interior decorators, and plumbers - a virtually unending list.

Further, indirect impact of housing is in terms of improved habitat, living, educational, social and cultural standards leading to human capital formation which together result in improved quality of life and thereby the future earning capabilities. Housing as an asset provides an important source of income for livelihoods of all the members of the households. The house value is an important collateral for contracting other loans, that improve the earning and repayment capacity of the borrower. All these together lead to improve the productivity further leading to enhanced income, and saving and repayment potentials on sustainable lines.\(^4\)

### 1.3 ISSUES CONCERNING HOUSING IN INDIA

Affordability is a function of cost of various inputs (finance, land, technology, building materials) and income of people. Recent years have witnessed steep rise in the prices of real estate including residential properties. This

\(^4\) Reports on Trend and progress of Housing in India. 2013, p.105.
phenomenon has the potential to exclude a large segment of the society as they get priced out of the formal housing finance market. Affordability has to be addressed both on the demand and supply side. Though the affordability of housing has improved in the country, it continues to remain the most critical aspect of housing for a vast segment of the population.

The rapid pace of urbanization owing to the rural-urban migration is putting a strain on the urban infrastructure in the cities of India and has led to substantial housing shortage. The growing concentration of people in urban areas has resulted in an increase in the number of low income people living in slums & informal settlements. This has resulted in an ever widening gap between the demand and supply of housing, both in terms of quantity and quality such as congestion, obsolescence, etc. The Technical Group on Housing Shortage has estimated the housing shortage in urban India at 18.78 million with 95 per cent shortage in EWS/LIG segments in 2012.

India's urban housing shortage is being primarily driven by the EWS and LIG categories. The supply side impediments in India to build affordable, low cost housing for the masses include high land costs, archaic building bye-laws, delay in project approval and unfavorable credit provisions for construction agencies that will need to be addressed through suitable changes in perceptions and policies. The demand side constraints in terms of credit supply to individuals at the retail level
are now better understood and tackled by the financial sector institutions within a
prudent supportive, but regulatory regime.\textsuperscript{5}

There is a looming housing shortage in rural India where 67 per cent of the
country's population resides. The rural housing shortage is estimated at 43.9
million by the Working Group on rural housing shortage in 2012 out of which
more than 90 per cent of the shortage of housing lies with the lower income and
marginalized groups. The vulnerabilities in the rural housing sector are often
considered to emanate from the sub markets of housing materials, services and
finance and the delivery system therefore. The rural housing market is also deeply
affected by infrastructure - deficit, viz., - roads, electricity supply, drinking water
and sanitation, etc. There is a real paucity of common or non-agricultural land for
meeting the housing needs of the poor in the rural areas. There is competing
demand from various sectors on limited land that is available in the rural areas. The
lack of vibrancy in the market for village properties and the marked volatility in
agricultural incomes combine to dampen the prospects of this nebulous sector.
Hence, the need for low cost, safe and affordable housing, on "project mode" for
mass/cluster housing will need to be considered for making a significant difference
in the present condition. An appropriate successful model can be replicated on a
large scale to cater to the underserved and unserved segments, which can lead to
inclusive housing and contribute to inclusive growth.\textsuperscript{6}

\textsuperscript{5} Report of the Technical group on Urban Housing shortage 2012-17, Ministry of Housing and
\textsuperscript{6} Working group on Rural Housing for XII year plan, Planning Commission, Government of
India.
1.4 HOUSING SHORTAGE: CAUSES

Like any other sector, housing is also affected by both demand and supply constraints. On the demand side, together with income levels of the people, overall cyclical condition of the economy and affordability of "housing" play an important role in determining the effective demand in the market. Availability of land and finance at reasonable price, organised infrastructure and appropriate and efficient, legal and regulatory framework are also some of the important constraints that affect the viability of the business model for the construction agencies, in turn affecting the affordability adversely.

Land Availability and Shortage: Land is in limited supply resulting in high population density in urban areas based on huge demand for urban land due to rapidly growing population in urban centres. The limited availability of land in urban areas affects both supply of land and pricing thereby affecting the affordability of housing units in urban centers. As a result there is proliferation and growth of slums and squatters in the form of informal segments. Policies at the state and local level to facilitate and support acquisition/supply of land parcels on a regular basis accompanied with proper planning, design, technology and financing models are required.

Financial Constraints: Lack of institutional and formal credit especially to the low income households and informal households has also contributed to the increase in housing shortage. A survey by the Planning commission has shown that 66 per cent of household in India construct homes using their own resources, 9 per cent using institutional finance and the remaining depend on non-institutional sources such as family, friends, money lenders etc.
A number of schemes are under implementation at the centre and the state level, both in urban and rural areas. However, all these schemes together, though successful have not addressed the housing shortage in any large measure given the magnitude of the problem. In the financial sector, besides the commercial banks and housing finance companies, local institutions such as Co-operative Banks and RRBs should be supported to develop capacity for lending in their jurisdictions which will allow greater flow of credit into the housing sector. Various institutional linkage models like Bank-SHG-MFI models and funding by understanding the saving patterns in the rural areas can be helpful in overcoming the impediments of finance in the housing sector, and mitigating the credit risks. The current financing mechanism prevalent in the country mostly targets middle and high income sections of the society while the households falling under low income and economically weaker sections category as also the informal sector find it difficult to enter the market of formal housing finance. Making housing credit affordable and easily accessible is still a challenge that requires collective efforts of all stakeholders including the policy makers at the centre, state and local levels, financiers, construction agencies, NGOs/CBOs, etc.

Financing for housing is in great demand, with the rate of retail home loans growing at 20 percent in the fiscal year 2012 despite the economic slowdown. Ownership of the house by the poor serves as a means to inclusive banking and credit since a house serves as an asset, a long term capital investment and a collateral for obtaining credit from formal banking institutions.\(^7\)

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\(^7\) Report on Housing Stock, Amenities and Assets in slums Based on House listing & House Census 2011 downloaded from The press Information Bureau (www.pib.nic.in).
Need for developing long-term fixed rate mortgages: Absence of long term debt market in the country also affects the growth of long term fixed rate mortgage products. This can result in serious Asset Liability Management (ALM) issues emanating from maturity mismatches. Though this can be partially addressed through "securitization", there is need to develop and deepen the long term market for debt funds, which are ideally matched for housing loans. Measures to promote securitization are a critical policy aspect that will need to be addressed through supportive policies across all market segments viz. mortgage market, financial market and capital market. Securitization transactions based on 'Originate, Hold and Sell' model instead of 'Originate and Sell' is most appropriate for the Indian market. Given the strict adherence to prudential measures by the banks and housing finance institutions and sustained good quality of retail mortgage assets, there is need for a more supportive and flexible regulatory framework for securitization in the country. Pension, provident and insurance funds should be more accessible in the mortgage industry either by way of loans or investments in the securitized instruments. The long term funding institutions should be encouraged to invest in long term debt papers and mortgage backed securities that can also be traded in the secondary market. New innovative instruments such as the covered bonds, Real Estate.

Investment Trusts (REITs) and Real Estate Mutual Funds for the residential mortgages can expand the participation of investors in the housing industry, liquefy the otherwise illiquid housing assets, allowing for easy liquidity and adequate supply of funds for the housing sector. Developing uniform and prudent
standards of underwriting, documentation, benchmarking, security etc. will provide more conducive environment for promoting securitization market in the country.

**Loan Products:** A housing loan is inherently different from any other retail loan. This is because a house is probably the single largest investment a person makes in his/her lifetime. It has a longer tenure and a larger sum. Further, often ancillary services like loan counseling or legal advice to ensure the title of the property is clear or technical advice to ensure that the structural aspects of the property are in order are required. In India, the mortgage market has simple vanilla home loan products such as loans for home improvement and extension, land loans, loans for non-residential premises. There is a greater need for fixed interest rate loan products for individual borrowers and greater awareness about such products and their attributes for the borrowers. The informal sector borrowers are still not integrated in the formal financial market and continue to depend for their credit needs on the informal sources, including money lenders, etc. Lenders will be more comfortable in lending to the non-salaried/non-fixed pay borrowers if they have a certain track record of earning and saving. Given the size of the informal sector, the product like deposit linked home loan scheme can be tried for serving this large and ever growing market segment. This would be very useful for low income groups particularly, as they can build equity and establish payment capability track record for availing home loans.

**Operational constraints:** With growing demand for housing in big cities including the metros, the pressure on land in urban centers continues to grow unabated. This has resulted in encroachment of public lands as well as lack of clear titles to private lands causing an artificial scarcity of free and unencumbered land
for undertaking housing projects by the private sectors, builders and developers. Absence of large scale digitization of land records and the easy access to such records for checking titles/encumbrances have also affected the sentiments of the lenders who perceive high risk in lending to households in this segment unless supported by the state government policies and programmes.

### 1.5 HOUSING IN INDIA

Housing apart from serving the basic aim of providing shelter, plays an important role in achieving some of the socio-economic objectives of the nation. The National Planning Commission observed that “in fulfilling the basic needs of the population, housing ranks next only to food and clothing importance”. Minimum standard of housing is essential for healthy and civilized existence.

The National importance of housing could be analyzed in terms of:

1. Contribution to GDP.
2. Capital Formation.

**Contribution to GDP**

Housing increases the quantum of national income also. The GDP contribution of housing at factor cost increased from Rs.1357 crores in 1970-71 to Rs.3,562 in 1980-81 at current prices.
Capital Formation

House property is a fixed capital which means an investment in the long term assets of the Nation. As such increase in housing facilities means an increase in capital formation.

Share of housing in capital formation increased from Rs.962 crores at current prices in 1970-71 to Rs.2509 crores in 1977-78 and to Rs.3034 crores in 1978-79. It accounted for 13.4%, 14.4% and 12.8% of gross domestic capital formation in these years. The share of household property in the total wealth of household is comparatively higher for lower income group and it is considered as lower for higher income group.

Generation of Employment

Housing industry is labour intensive. An investment of Rs.1 crore in housing was estimated to generate 923 man years of direct employment. In developing countries, un-employment is a chronic problem. Housing is one of the important industries which creates an employment opportunities on a larger scale. The number of workers in the building construction increased from 1.26 million in 1970-71 to 2.00 millions in 1980-81.

Policies treat housing as welfare drain to limited public resources. But, by adopting market-oriented strategies, developing countries can transform a sector that dampens economic growth. The World Bank recognizes that policies to

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promote free markets lead to healthy housing sector, which in turn help to drive economic growth.\(^9\)

The role of housing in poverty eradication programme is potentially significant because of the range of benefits and such investment can support number of benefits.

**Growth of Population after Independence in India**

The growth of population during the last six decades can be observed from the following table:

**Table 1.1.1**

- **Population and its Growth after Independence in India**
- (Population in millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Population</th>
<th>Decade</th>
<th>Growth</th>
<th>Percentage of growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>36,10,88,090</td>
<td></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1961</td>
<td>43,92,34,771</td>
<td>1951-61</td>
<td>7,81,46,681</td>
<td>21.6 %</td>
</tr>
<tr>
<td>1971</td>
<td>54,81,59,652</td>
<td>1961-71</td>
<td>10,89,24,881</td>
<td>24.8 %</td>
</tr>
<tr>
<td>1981</td>
<td>68,51,84,692</td>
<td>1971-81</td>
<td>13,70,25,040</td>
<td>25.0 %</td>
</tr>
<tr>
<td>1991</td>
<td>84,63,02,688</td>
<td>1981-91</td>
<td>16,11,17,996</td>
<td>23.0 %</td>
</tr>
<tr>
<td>2001</td>
<td>1,01,24,00,000</td>
<td>1991-01</td>
<td>16,60,97,312</td>
<td>19.6 %</td>
</tr>
<tr>
<td>2011</td>
<td>121, 00, 00, 000</td>
<td>2001-11</td>
<td>19,76,00,000</td>
<td>19.51 %</td>
</tr>
</tbody>
</table>

Source: Population Policy for India-Perspectives, Issues and Challenges,


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Decennial growth rates for fifties, sixties, seventies, eighties, and nineties of the twentieth century turn out to be 21.6%, 24.8%, 25.0%, 23.5%, and 19.6% respectively. The growth rate from the year 2001 to 2011 is 19.51%. The Country as a whole has crossed the peak. The percentage during the nineties is hopefully lower than that during the fifties when government launched development through planning. It is important to note that during fifties, sixties, seventies & eighties there is increase in growth of population.

During nineties there is decrease in growth of population and it is so small that one can hope to see negative number next time. For poor people, struggle for shelter and housing comprises the most fundamental elements of their daily survival strategy. Secure, safe housing plus supporting infrastructure provides a wide range of benefits for low income households. Many community driven programmes to build and improve housing have helped low income group to work together and to develop constructive relationship with local authorities or other service providers.  

**Availability of Houses in India**

National Building Organization (NBO) had estimated that the shortage of about 21 million housing units in the country of which 16 million are in rural areas and 5 million are in urban areas. The number of total useable housing units was about 94 million. About 39.6% of urban household are living in single room and about 3.5 % in ‘Katcha’ houses. 36.1% people do not have toilet facilities, 57% are without electricity and 66 % manage without water supply facilities.

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It is estimated that nearly 40-50 million of urban population are currently residing in slums. By 2011 A.D, this urban slum population had reached between 125 to 140 million. The slums are creating formidable problem.

In India, shelter related sector continue to get a low priority for development investment, especially in the rural areas. The population of the Country contributes tenants housing and the other socio-economic and physical infrastructural demand. The population of India in 1981, 1991 was stood at 68,51,84,692 and 84,63,02,688 million and it stood at 1,01,24,00,000 million in 2001 A.D and reached its peak of 121, 00,00,000 million by 2011.

**Shortage of Housing in India**

The following table shows household, useable housing stock and housing shortages/gap in 2001 and 2011.

**Table 1.1.2**

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Particulars</th>
<th>2001</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Rural</td>
<td>Urban</td>
</tr>
<tr>
<td>1</td>
<td>Households</td>
<td>113.5</td>
<td>47.1</td>
</tr>
<tr>
<td>2</td>
<td>Useable Housing</td>
<td>92.9</td>
<td>36.7</td>
</tr>
<tr>
<td>3</td>
<td>Housing Shortage</td>
<td>20.6</td>
<td>10.4</td>
</tr>
</tbody>
</table>

A rapid rise in population results in higher demand of dwelling units for residential purposes. This coupled with the growth in household formation and increased rural-urban migration resulting in non-availability of opportunities in rural areas, which resulted in severe pressure on urban infrastructure in recent years. The consequence has been overcrowding and unhealthy living environment, shortages of basic amenities and finally social and economic deprivation. All major urban areas in our country are gradually being occupied by houses.

The Tenth Five Year Plan estimated the urban housing shortage at 8.89 million dwelling units in 2002. Further, the total number of houses that would be required cumulatively during the Tenth Plan Period are estimated at 22.44 million dwelling units. With the continuance of the 2 Million Housing Programme, it is estimated that the investment requirement from public sector institutions would be around Rs.4,15,000 crores. Apart from this, substantial contribution from private players would be required to tackle the growing housing shortage.

1.6 PROBLEMS OF HOUSING IN INDIA

Housing activity generates local employment and local income. Since house construction is highly decentralized production activity, it has the advantage of creating dispersal of employment. In Country like India with regional disparities in income and employment, it is quite desirable that investments in both public and private are channeled to housing. House construction activity can take place at any time except during monsoon season. Hence, it is possible through careful planning to provide alternate employment to agricultural laborers during off-season. Despite all these benefits accrue to housing sector, it is not free from problems and
they are as under. The problem of housing in under-developed Countries is more severe than in developed Countries, which are under:

i. The rate of growth of population is fast and high.

ii. Large part of population is below the poverty-line and

iii. The quality of building material is inferior.

India being an under developed country has the following problems relation to housing:

i. Number of slum areas is greater than the well planned colonies.

ii. Water supply is in shortage in rural as well as urban areas.

iii. There is a general shortage of power and interruptions in power supply are very common.

iv. Material used for construction are of inferior quality and do not have built in resistance against fire and water.

v. Many of the houses are built with locally available material like grass, mud etc.

vi. Cost of construction is constantly rising in the Country.

vii. There are no significant attempts to manufacture prefabricated components parts of housing.

viii. Research & Development (R&D) in the field of housing is poor.

On account of the above problems, housing facilities are not increasing at the required pace. Private imitative is also not found as a measure that is expected. Since, it is a facility available only to rich sections of the population. Since last 45
years of planned development, the backlog of housing shortage in India has risen to three folds. It was estimated that in Kolkata alone 6 to 7 lakhs people sleep on the pavements and in Mumbai an estimated 1,50,000 make the sky as their roof.

Everyone understands that street sleeping permits no family life, no privacy, no relief from heat, no escape from cold or rain and no decent means for disposing of human waste. To mitigate all these problems, adequate provision of housing facilities is a minimum need.

In many Cities of the developing Countries, about 20 to 40% of the people are squatter with no legal title. According to Paul Streeten and Burki, “over 150 million people in urban areas of the poorest countries have less than satisfactory shelter”.

According to “Indian National Planning Commission, about 373 million people did not have sufficient income even for the bare minimum food”. A large percentage of the population above the poverty line also cannot afford to acquire houses as they can hardly have savings.

Unrealistic housing standard and the feeling that slum clearance should be an essential and immediate step in housing programmes resulted in serious problems in many countries including India. Many governments have insisted on maintaining high standards, which raises the cost of housing and prohibit self help construction by low income households, prohibitive building codes, costly land acquisition procedures and other barriers prevent the poor from building permanent houses with legal title.
A World Bank study reveals that “until 1970s, developing Countries concentrated on the provision of heavily subsidized housing”. They laid down high building standards and zooming regulations to try to improve the quality and to demolish slums and squatter elements. Consequently, they realized that the housing standard should be more realistically decided with relevance to the socio economic conditions of the vast sections of the population and that slums are indispensable for sometimes and hence the policy should be to improve these slums, which are serviceable and amenable to improvement. Charles Abraham said that “wholesale slum clearance and building of costly housing must be abandoned and that some fresh thinking must be brought to bear on the shelter problem” \(^\text{11}\)

It has been observed that slums are National problem; a person who suffers from any disease in slum area is a national liability. According to 1981 census, the estimated slum population in India was about 30 million, accounting to nearly 1/5 of total urban population of the Country \(^\text{12}\).

Housing shortage has grown faster in the rural areas when compared to urban area. Quantitative shortage, the poor conditions of a large part of the existing housing stock and overcrowding in houses and tenements are the important dimensions of the problem.

The average number of people per house is comparatively very high in India and this number has been on the increase reflecting the in-adequacy of accommodation. The overcrowding family members in small dwelling unit is a


mother of concern from the demographic and social point of view. The type of material used for the walls and roofs also given some indications of the quality of the housing stock. According to 1971 census, the walls of the 12% of rural houses in India have made of grass leaves, reeds or bamboos.

About 58% of the rural houses have walls made of mud, unburnt bricks or wood and only 30% of the houses are built with burnt bricks. The material used for 50% of the rural houses is grass leaves, thatch seeds, bamboo, mud, unburnt bricks or wood. One half of rural houses have roofing with tiles, slates, A.C sheets, bricks, lime-stone, R.C.C etc. In urban areas, about 80% of the houses have durable material, 72% have walls of such material as burnt bricks, G.I sheets, other material, sheets, stone, cement, concrete etc. 5% of the urban houses have walls made of grass leaves, reeds or bamboo and about 22% have walls made of mud, unburnt brick or wood.13

1.7 PROBLEMS OF HOUSING FINANCE

The major problem being faced by majority of the people in India is housing. Still crores of people in country do not have shelter. The Government at Central and State levels have been taking many measures and establishing many institutions including HUDCO and NHB to cope up with the situation. In fact the problem of the people in getting in constructing the houses in India is not related to the quantum of finance. They are more bothered about the type of the services being offered by these house finance companies.

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The following are the some of the major problems of housing finance in rural and urban housing in India:

1. Insufficient allocation of funds by government in the budget for shelter less people is one of the reasons. Though the government in its policies had allocated funds for housing, it is insufficient to meet the demand or requirement.

2. Lack of identification of the genuine beneficiaries of housing finance.

3. Most of the banks operating in rural or weak areas are concentrating on the priority sector like agriculture, farming and other occupations than on housing finance.

4. In urban areas, most of the corporate banks concentrate on the high income groups to credit housing finance as it is beneficial. So, housing finance is not reaching all the required people.

5. Many of the financial institutions are not concentrating on all the geographical, income, class segments of the society to extend loans for housing.

6. Most of the housing finance applicants do not meet the income eligibility, service eligibility and other frame works set by the housing finance companies.

7. Most of the people who desire to construct a house do not meet the stipulated layout rules set up by the village panchayat, municipality and corporation, thus making housing finance companies to reject housing finance.
8. Due to fast growth of population, most of the people in urban areas do not find land or house. Thus lack of identification of property is a reason for not obtaining housing finance.

9. Higher rates of interest set by the private banks are a barrier for obtaining housing finance.

10. Frequent fluctuations in the rate of interest of housing finance due to international markets, competition etc. are also the problems of housing finance.\(^{14}\)

It is in this context an attempt is made in this study to evaluate growth, performance and constraints of Housing Finance in India, to analyze the operational and financial performance of LICHFL and HDFC Limited, to examine the housing loans products of LICHFL and HDFC Limited, To analyze the limitations of housing loans products of LIC HFL and HDFC Limited and find out the housing loan borrowers perception and satisfaction of towards the services offered by the LICHFL and HDFC.

1.8 NEED FOR THE STUDY

Shelter is a basic human need and productive investment. Easy accesses to institutional finance at affordable rates are an essential pre-requisite for accelerating the tempo of housing activity. This is more so in the eastern and north-eastern region where the general level of income is relatively low. It is, therefore, imperative that a specialized housing finance system – albeit as an integral part of the national finance system – be created for this region for the development of new

housing stock as well as for the renovation, up gradation and expansion of the existing housing stock in the rural, semi–urban and urban areas\textsuperscript{15}. Out of the total outlay of Rs.97, 500 crores for housing in the 8th Five Year Plan, organized sector is expected to contribute about Rs.25, 000/- crores. The emergence of a number of HFCs in organized and unorganized sectors has brightened the economic scenario. The potential for the HFCs is vast. The success of HFCs depends on how effectively they can tap resources. Fortunately, during the last couple of years, lot of emphasis has been placed on creating an integrated national housing finance system. With the creation of National Housing Bank, an apex housing finance institution, housing finance has received added impetus. In addition the NHB are many housing financial institutions that established in India\textsuperscript{16}. These include HDFC, HUDCO, LICHFL, Commercial banks and other housing finance companies. Banks can venture into informal housing by providing loans for up gradation of the housing stock in a gradual manner over a period of years. The schemes for financing informal housing can be combined with the schemes meant for employment and income generation, which can result in the overall improvement in the living conditions of the poor. The informal housing market also gives a chance for the banks to capitalize the absence of big existing housing fiancé institutions.

Housing finance being a specialized activity, it is desirable to concentrate the activities by selected banks rather than the indiscriminate involvement by all banks. As residential housing loans do not create direct additional income,


recovery of loan may prove to be difficult even though loan may be adequately secured. There are many legal and other hurdles to be tackled before substantial involvement of banks. At the same time, banks cannot stand apart from housing finance particularly when many avenues of traditional lending being taken away from commercial banks in the wake of financial innovations.

In addition to the problem of financing the biggest problem faced by prospective house owners and buyers is the deficiency in getting services from the house finance companies in India. Even today the housing finance companies while sanctioning loans to the housing sector are treating the loans as an extension of their portfolio of loans without studying problems of construction of houses and borrowers. It is in this context an attempt is made to study the operational, financial performance and customer perception about the LICHFL and HDFC home loan companies in Chennai city.

It is also aimed at studying and evaluating the progress of Life Insurance Corporation Housing Finance Limited (LICHFL) and Housing Development Finance Corporation (HDFC) in financing of housing activities in Chennai city. In addition to study the customer perception about the LICHFL and HDFC housing loan companies in Chennai city.
1.9 OBJECTIVES OF THE STUDY

The study has been carried out to find the following objectives:

1. To study the growth, performance and constraints of Housing Finance in India.

2. To analyze the operational and financial performance of LICHFL and HDFC Limited.

3. To examine the housing loans products of LIC HFL and HDFC Limited.

4. To analyze the limitations of housing loans products of LICHFL and HDFC Limited.

5. To find out the housing loan borrowers perception and satisfaction of towards the services offered by the LICHFL and HDFC.

1.10 STATEMENT OF HYPOTHESIS

1. There is no significant difference in the operational performance between the Housing loan companies of LICHFL and HDFC limited.

2. There is no significant difference in the financial performance between the Housing loan companies of LICHFL and HDFC limited.

3. There exist differences between the housing loan products of LICHFL and HDFC Limited.

4. There is no association between monthly income and housing loan availed by the respondents in Chennai city.
5. There is no significant difference between the LICHFL and HDFC with respect to customer perception about the home loan products in Chennai city.

6. There is no significant difference between the housing finance companies of LICHFL and HDFC with respect to satisfaction of services offered by housing finance companies in Chennai city.

1.11 METHODOLOGY FOR RESEARCH

Nature of the study

The core intention of the study is to find out the growth and development of housing financed in India. In addition, to examine the operational and financial performance housing loan companies of LICHFL and HDFC Limited and find out the customer perception of Housing loan companies of LICHF and HDFC limited in Chennai city.

Data Sources

The data are obtained from both primary and secondary sources. In first explorative stage of the study, the secondary data were collected in the form of a review of literature to familiarize the researcher with the various aspects of the study from different sources like journals, magazines, books, annual reports, internet and newspapers. The primary data needed for the study were collected by using structured questionnaire.
Research Approach

The relevant data were collected by the researcher from the customers of LICHFL and HDFC Limited in Chennai. For the purpose of research, area of the study has been classified as three places namely North, South and Central Chennai. The researcher approached the customers of LICHFL and HDFC Limited who came out of the companies after completing their transactions, and requested them to fill the structured questionnaire to generate the response to the listed objectives.

Size of Sample

Taking into consideration the current loans availed by the consumers of LICHFL and HDFC Limited. The total sample size is 400 out of which 200 samples are from LICHFL and 200 samples are from HDFC Limited.

Sampling Method

Convenience sampling method was adopted.

Period of the Study

For the purpose of study, period from 2008-09 to 2012-13 was taken in to consideration to fulfill the listed objectives.

Pilot Study

A pilot study was conducted from 40 respondents of both housing finance companies of LICHFL and HDFC Limited Chennai city. 20 respondents are from LICHFL and the rest of the 20 respondents are from HDFC Limited. The pilot study is conducted to check the reliability and feasibility of the questions as well as
the statements included in the questionnaire. The Cronbach’s Alpha method is adopted to check the normality as well as the reliability of the statements in Likert’s Five Point Scale. The result showed that the statements included in the questionnaire possess a high reliability of 87.6%, with Cronbach’s Alpha Co-efficient 0.876. It led to the conclusion that the statements posed to the customers are highly reliable and understandable to express their free and fair opinion for final study.

**Field Work**

The respondents were contacted directly by the researcher for collecting the relevant data. The proper care was also taken to maintain the heterogeneity of samples. The field work was carried out for a period of six months from April 2014 to September 2014.

**1.12 METHOD OF ANALYSIS**

The data collected for the study are analyzed by using SPSS package. The analysis can broadly be categorized under two parts namely descriptive and inferential analysis. Tables, charts and graphs have been used extensively to present the data in appropriate chapters. For the purpose of analysis both descriptive and inferential statistical techniques were used. Rating scales and ranking tables were used to measure the awareness, satisfaction level, as well as the borrowers’ perception of various aspects of service.

Simple statistical tools like ratios and percentages were applied where ever it is appropriate. Percentage analysis was done to measure the level of awareness, satisfaction and perception of borrowers of the two institutions in terms of various
factors. The growth rate and annual average growth rate were used to compare the
series. The Chi-square test was applied to verify whether there is any significant
difference in the level of awareness, level of satisfaction and the perception level
of borrowers of the two identified institutions with regard to different factors.

Test value mean is taken as the basis for measuring the level of awareness,
level of perception and the satisfaction level of borrowers. Test equality of mean
(One -Way ANOVA or t- test whichever is appropriate) has been used to find out
whether the means of various groups of borrowers significantly differ or not. Also,
the multiple comparisons test (Duncan Multiple range test) was made to determine
the difference in the means of various attribute groups.

1.13 LIMITATIONS OF THE STUDY

The study was limited only to the city of Chennai. Due to the limitations in
the time factor, the study was limited only to the major two housing loan
companies of LICHFL from public sector and HDFC private sector. The duration
of the study also restricted from 2007-08 to 2012-13. The data collected from
selected home loan borrowers of HDFC and LICHFL in Chennai city formed the
basis of the study. Hence, proper care may be taken while generalizing on the
results. The main objective of the study is to assess trend and performance of
housing loan sectors in India and the satisfaction level of beneficiaries with regard
to the services rendered by these institutions. Since the study was mainly on this
most qualitative or subjective nature of human behavior - ‘satisfaction’, exact
quantification of data became difficult.
The analysis suffers from non-sampling error, since some of the respondents were reluctant to give exact information. Further, there may be bias or unwillingness from the part of the institutions to provide sufficient information. The evaluation and analysis is subject to certain inherent limitations, which are common for all studies based on social survey.

THEESIS OUTLAY

The study is structured under five chapters from a basic introduction to findings and conclusion.

Chapter – I : Introduction

This chapter introduces the study and states the conceptual framework, need for the study, objectives of the study, statement of hypotheses, research methodology, and limitations of the study.

Chapter – II : Review of Literature

The second chapter deals with the reviews of earlier research studies.

Chapter – III : Overview of Indian Housing Sector

This chapter highlights the overview of housing financing in India.

Chapter – IV : Profile of Housing Finance Companies of LICHFL and HDFC

Profile of Housing finance companies of LICHFL and HDFC.
Chapter-V : Data Analysis and Interpretation

Data analysis and interpretation divided into two parts descriptive analysis and inferential analysis.

Under descriptive analysis, various demographic factors of the respondents were analyzed and under inferential analysis, testing hypothesis through appropriate statistical tools.

Chapter – VI : Summary of Findings, Suggestion and Conclusion

Summary of findings, Recommendation, suggestion and conclusion - The concluding chapter summarizes the findings of the study and gives out the suggestions suitable for the housing loan customers in Chennai city, researchers view on the scope for future research and conclusion.