Chapter 2

REVIEW OF LITERATURE

Housing finance all over the world are undergoing tremendous changes and have acquired great significance in the present day context of liberalization, globalization and modernization of the society. A good number of research works have been undertaken by individual researchers and institutions invariably dealing with different aspects of housing finance. A brief review of the major studies which are particularly pertinent for the present study is attempted here.

By analyzing the question of housing in the country, Ananda Bose, C.V (1996) emphasized the need for propagating cost-effective and environment friendly building technology. He also underlined the need for bringing out a new design and construction culture, avoiding costs and eliminating wrong notions.

Lahiry, S.C (1996) observed that the rising cost has a dampening effect in the housing sector and the need of the hour is to promote low cost and environment friendly technology and use of indigenous products. He opined that the housing concept has undergone drastic changes and as
such the skills of the people to take-up new housing technologies have to be developed.

Kurana, M.L (1998) analysed the magnitude of the housing problem, housing finance companies, legal aspects of housing co-operatives and procedural simplification of housing loans. He suggested the necessity for education and training for the members of the housing co-operatives and also the legal aspects including the adoption of model law formed by the Central Government.

Krishna, R.R and V.V.Ganesh Murthy (1998) observed the views that there is a vast scope for housing promotion in India and the banks and housing finance companies can play a vital role in the promotion of housing. They suggested that reduction in the housing loan interest and simplified procedure for sanctioning housing loan will boost the construction of houses.

Leelamma Kuruvilla (1999) throws light on National Housing Policy and new initiatives in housing finance. She suggested that the change in the legal frame-work, simplifying the procedure for housing finance and the active involvements of the Government in the housing sector will definitely mitigate the housing problem.
Mohinder Singh (1999) states the magnitude of the housing problem in the country and various national housing policies of the Government. He reviewed the detailed statistical data and suggested the following: a) sufficient loan amount free from corruption and a low rate of interest, b) a country-wide survey to find out the real housing storage, c) standardization for low cost housing and d) regular monitoring and follow-up action.

Parimal H. Vyas and Sandip K. Bhat (1999) who analyse the major housing finance institutions, critical issues of housing finance, interest rates and the repayment techniques observed that the restructuring of housing finance institutions by developing appropriate marketing orientation programmes are necessary to face the challenges in the present day world of liberalisation and globalisation.

Sharma, A.K. (1996) highlights the fact that the challenges of homelessness and urban slums are largely the spill over problems of inadequate rural habitat. He stated that the housing is closely connected with growth of population, modernisation, poverty, development and information and the poor people of India, lack all basic facilities as they are incapable of meeting the rising cost of building materials. He also
opined that Indians cannot solve the housing problem without a strong political will and properly designed strategies.

Nair, K.N.S and S.G. Jayachandra Raj (1994) observed that Kerala stands unique in the realm of growth and development. But, even in the wake of state’s rapid expansion in the social sector, it is to be observed that Kerala projects a dichotomy picture of development comprising of feeble economic structure along with developed social culture.

Mathurn (1993) opined that the financial burden of investment in housing is generally very heavy when the owner does not have sufficient funds available to pay for the site and the entire cost of construction. Hence, he must make arrangements to obtain funds from some other sources.

Naik (1981) revealed that housing loans are usually advanced against the security of mortgage of land and the building to be constructed with the loan. Housing finance is therefore mortgage finance.

According to Harichandran (1989), the objective of the National Housing Policy include motivation to help people particularly the houseless to secure for themselves affordable shelter and to promote
investment in housing in order to achieve a sustained growth of nation’s housing stock.

Parekh (1988) reported that the future of housing finance is to enhance the loan origination process for housing throughout the country to develop an institutional network that would facilitate the origination process, to identify the potential resource base for the system as a whole and to simplify the legal system with respect to risk management of housing finance institutions.

Usha Patel (1996) explained that at present housing through bank finance was a part of bank’s priority sector lending. Besides, every nationalized bank is expected to allocate every year a specified percentage of deposits and plan for its deployment for financing direct as well as indirect housing programmes.

Thomas Paulose (1988) in his study narrated a true picture of housing policies and programmes in Kerala.

Deepak.Razdam (1990) reported that the sources of informal savings are seen to be cash and bank deposits, assets like jewellery, loans from friends and relatives and to a small portion of funds from money lenders. The Government plan to bring about appropriate changes in the
approaches of the existing financial institutions so as to make them more responsible and accessible to households.

Muthuram, P (1999) opined that housing finance, particularly retail housing finance is acquiring great importance because of government’s incentives and stability in prices. Housing finance offers safe, secured, profitable and diversified asset portfolio.

Leland and Leo Greller (1977) in their study on Government schemes on housing stated that the housing boards and development authorities are the only responsible agencies to care for housing.

Keith and John (1980) brought out a new picture of housing problems. They said that public housing policy of one sort or another is obviously of great importance in advanced capitalist systems.

Ball (1980) reported that housing is unavoidably expensive to produce. Even the most minimal dwelling occupies land and relatively large amounts of materials and labour for its production.

Holmans (1987) stated that most people cannot afford to pay the full cost of suitable accommodation from income or savings, but neither have they postponed their consumption even if they cannot afford to buy outright.
Paul Diamond, T (1998) observed the housing shortage in the country and highlighted the role of the HFIs in national housing. His observations include introducing flexibility in designing products and systems, development of mortgage market and development of suitable products to satisfy wide range needs of borrowers.

Whitehead (1983) observed that housing is essentially a private good with few externalities. Again, the advantages and disadvantages of housing largely accrue to the individual owner or user of the property, rather than to the community at large. Whitehead concluded that, housing is a readily marketable commodity suitable for private provision in a mixed economy.

Hadly and Hatch(1981) advocated a change of emphasis away from the traditional objectives of state provided social services of uniformity, hierarchical, accountability and administrative standardization to a system relying on community based organization and designed for flexibility, accountability, to the consumer and disprofessionalization.

Wilson and Aslam (1991) highlighted the problem of housing especially in Kerala. They made an attempt to assess the outflow of
money from the state for construction. The financial problems for salaried
individuals in relation to investment on housing were also analysed.

Josen Alex (1991) made an attempt to analyze the attitudes of the
people towards low cost housing. He also dealt with housing situations
and problems and cost reduction aspects of low-cost houses.

RejiKumar (1992) in his study stressed the relevance of low-cost
housing schemes, techniques and building materials. He also analyzed the
technical feasibility and financial viability of the unit.

Kaul (1994) deals with a number of building materials and
technologies which came up as a result of continuous R & D efforts in the
country. He argued that by adopting such innovative methods of
construction, cost of construction will come down and speed of
construction will increase.

Narayan and MohanKumar (1994) presented a paper analyzing the
housing problem from the resource base point of view and attempts to
highlight the need for evolving contextual technologies that use locally
available materials that can act as alternative to the presently popular
building materials.
Jacob Philip (1995) in his study explained about cost reducing innovative techniques and alternative building materials in house construction.

Suresh, G.S (2002) made a comparison of the services rendered by housing co-operatives in Kerala with other housing agencies in the state. He also assessed the performance of PHCs in the state and examined the perception of its borrowers towards the society.

Misra (1996) also explained about the alternative building materials and techniques in house construction.

Mathews (1995) in his study clearly narrates a picture of cost effective technologies for housing. He also explains about the building materials, components and systems.

According to Achwall, M.B (1991) environment improvement and housing are linked in the field of development of the community. The role of the community worker is to assess material and manpower resources to develop cooperation and help in executing project is appreciated and used in all community oriented programme.

Deepak Parakh (1998), in his article, “Housing and Financial Intermediation, Operational Links and Private Sector Initiatives in India
Context” opined that a formal housing finance system must be able to help a household to make investment in housing and must bring affordability.

Puri (1993) conducted a detailed study of the problems of dwellings with specific conditions of hot climate, allied issues like environmental consciousness, rural and urban population distribution and pollution challenges.

Madhusudhanan V (1998) studied the part played by governmental and nongovernmental agencies in mitigating the housing problem especially the weaker sections of society in Kerala. He assessed the different housing schemes and policies of the government and also evaluated its impact on the socially marginalized people in state.

Narayanan and Mohankumar (1994) reported that modern industrial activities and many of the sophisticated systems and techniques create adverse effects in our environment and eco-systems. The massive volume of housing activity in Kerala during the past few decades also had its impact on the wider economy, ecology and society.
According to Gnanaharan (1994) a significant portion of the exploitation of nature owes its origin from the demand of the housing sector to timber.

Agan (1966) opined that there are two ways to buy or to construct a house. One is to pay for it outright in cash; the other is to make a down payment and to cover the balance with a mortgage which will be paid out of future income.

Nickell and Dorsey (1996) opined that the three methods of financing home ownership are cash, credit and contract method.

According to Harichandran (1989) the objectives of the National Housing Policy include motivation to help people particularly the houseless to secure for themselves affordable shelter, to promote investment in housing in order to achieve a sustained growth of nation’s housing stocks.

Bhalla (1991) observed that the present housing shortage in the country is estimated to be around 30 million dwellings. National Housing Bank, established in July 1988 aimed at meeting the challenge by mobilization of household savings through Home Loan Account scheme, facilitating easy access to institutional credit for housing and the
continuing concern for affordability of housing by different income
groups.

Pillai Kalathil, S.R. (1996) stated that it will be advisable for all
governments and public sector housing finance organization to have a
central pool arrangement of counseling with would be borrowers.
Legalities will have to be simplified.

Gopikuttan, G (1988) studied the causes, consequences and
dimensions of the changes in the trend of house construction activities in
Kerala. He observed that the emergence of socio-political movements
and growth of education have influenced greatly the housing pattern in
the state. However, he agreed that the housing boom did not stimulate
the state economy and it did not satisfy the shelter needs of the weaker
sections of the society.

Peter Malpass (1996) depicts the need for housing finance.
Housing is unavoidably expensive to produce. He continued his argument
by making a distinction between development finance and consumption
finance. The former refers to the ways in which the households meet the
cost of buying or renting.
Helen, A.P (2006), in her study, has made a comparative analysis of the schemes of HDFC and KSHB and tried to see how far the economically weaker section in the three metro cities in Kerala (Trivandrum, Kochi, Kozhikode) benefited the services rendered by these two institutions. She also made an evaluation of the cost effective and conventional housing examined the awareness of the low cost housing technology and recommended the need for cost effective eco-friendly housing. She opined that in Kochi low cost housing means low quality housing meant for the poor and hence there is urgent need to popularize low cost housing so as to change the mind set of people.

Hasanbanu, S and Jeya Shree (2006) studied the various factors which influence the people for availing housing loan from public and private sector banks. They concluded that there is vital scope for housing promotion in India, and banks can play a vital role in promoting house building activities in villages by introducing more dynamic and innovative housing loan schemes.

Dangwal, R.C (1999) assessed the performance of various financial institutions and their different housing finance schemes. He also assessed the further need of finance in order to fill up the gap between the demand and supply of housing finance in India.
According to Carole Rakhodi (1991) the finance for house construction and purchase is in many limited supply in the third world. The formal sector housing finance is only available to a small portion of the urban population. This has led to increase in finance systems including surveys of international literature.

Plavia, C.M (1969) stated that housing finance is not as self-liquidating as agricultural finance and industrial finance.

Koshy George (2000) conducted a study among the salaried class in Kerala and examined their house construction activities and the proportion of their investment in housing. He also examined the socio economic impact due to the drainage of funds to other states in respect of employing labourers from other states and importing building materials from other states

Varghese, K.V (1983) explained that the main housing problem is linked with financial sector. He opined that housing is very expensive which needs heavy capital outlay.

David Drakakis (1981) speaks of the necessity of slum improvement programmes by stating that approaches to the housing
shortage of the third world, broadly encompasses government subsidized programmes which are involved in varying degrees.

In the opinion of Claude Gruen (1970) urban renewal has not provided equivalent price standard dwelling units to supplement competitive function of the slums. The economic determinants of housing quality work within the parameters of income and willingness to spend for housing exhibited by the population of urban area.

As we find in Economic Review, Government of Kerala (1995) Kerala State Co-operative Housing Federation is an apex financing agency in the co-operative sector. It extends financial assistance for the construction of houses through its 207 affiliated primary societies. Kerala State Nirmithi Kendra has been established with the objective of promoting low cost housing and habitat development.

Vijaya Bhole (1986) in her research thesis cites that the economic factors seem to have placed severe impediments in the house building activity. Among the most important factors, rising land value seems to be major constraints in house building activity.

Sivalingam,T (1999) in his study titled “A Study of the Performance of Multi-Agency Housing Finance Institutions with
Particular Reference to HDFC, LIC and Housing Co-operatives” analysed the different loan schemes of HDFC, LIC and Housing co-operatives. He observed that the proportion of investment in public sector housing has declined while the same in the private sector has increased. He also observed that the borrowers of all the three housing finance institutions were not satisfied with regard to the rate of interest charged by them.

Aron Chaze (2000) in his article on HDFC in the Financial Express stated that while HDFC has reported a growth in business volumes, it does very little to inspire stock market. In his opinion, the effect of lower lending rates has been absorbed and interest spreads have begun to improve.

Krishnamurthy, K.V (2002) in his article titled “Housing Finance: A Safer Avenue” raise a question- why banks are keen on housing finance sector today? He highlighted the reasons for this changed phenomenon as the present market condition which forces the banks to park this surplus resources profitably; housing finance is relatively safe and secure gives better average yield; to tap the potential as a result of change in life style wide publicity by banks and financial institutions, demand from wider reach (smaller towns) all have resulted in attracting banks to enter into this sector. He feels that there is small hope for
business for the banks in housing segment. Further, the mortgage-backed nature of housing finance helps the bank to look for securitisation, which generate cash flow and thereby improve capital adequacy.

Mistry, K.M (2002) Managing Director, HDFC, in his article, “Future Perfect”, emphasizes the importance of housing sector in the economy by stating that it has backward and forward linkages with as many as 269 industries and is the second largest employment generator in the country. He affirmed that HDFC is superior to Banks in terms of its ability to render expert counseling and legal advisory services. He also stated that HDFC has an effective risk management technique so that its spread remains protected. Though banks have access to low cost funds, it is totally unstable and over a period of time it will face an issue of mismatch by borrowing short and lending long.

Gireeshkumar, G.S (2000) in his study analysed the views of member beneficiaries and managerial personnel with regard to the various aspects of housing loan and examined the problems faced by primary housing cooperative societies. He suggested implementation of professionalism in management and reduction in the proportion of share linking.
In the article titled, “Growth at a Brisk Pace”, Rao, R.V.S (2003), stated that the housing finance sector has been growing at a brisk pace due to the increased demand for housing consequent to the lowering interest rates, tax concessions and increasing incomes. To meet the increased demand for housing and the lower probability of losses prompted varied players to enter the sector. He opined that however, not all players are likely to succeed and to withstand competition they should render technology-enabled value added services.

In the article titled “Huge Untapped Potential”, Nitin Palany (2004) described the evolution of housing finance industry and stated that there is a huge potential for housing finance which can be tapped across the country. He also stated that there is room for every player in the housing finance market. He opined that in the midst of the information explosion, borrowers sometimes find it difficult to decide the right lender for which he has given a check-list to borrowers to take a right decision.

In the article, “Housing Loans – Choose the Best Deal”, Kumar, M (2004) discussed the option (fixed, floating or mixed) that may be considered as the best for the borrower. He opined that mixed option might be the best in the present scenario as the market is highly uncertain so far as change in interest rate is concerned. So borrowers should plan
their financial needs in an effective manner to get the best deal and to decide the proportion depending upon the risk bearing capacity.

Manoj, P.K. (2004) in his article, “Dynamics of Housing Finance in India”, made an attempt to study the growth and development of housing finance system in India. He also emphasized the importance of housing to the economy and prospects of housing finance industry. He examined the risk factors and issues involved in aggressive lending to housing due to cut throat competition and the peculiar features of the existing regulatory and legal system. He concluded that measures should be taken to promote active mortgage backed securitization market in India which can further strengthen our Housing Finance System and make it more competitive.

Varghese, K.V (2004) in his article entitled “The Existing Housing Finance System”, viewed that as a result of mal-allocation of funds, the finance is inadequate. This is mainly due to the absence of country wide institutions to combine savings with the provision of housing finance. He opined that housing is a costly commodity which requires huge investment. The present housing finance system lacks facilities of mortgage loan and insurance for housing credit. Poor people (pavement dwellers) are outside the purview of all financial institutions and hence
some sort of financial arrangement may be made to meet their financial requirement of housing.

In the article “Bank funds flow to rural housing”, Gupta, P.K (2005) made an estimate of housing requirement in rural areas as 24 million units as compared to 7.1 million units in urban areas (taking into account replacement, new units and damages of houses due to vagaries of nature). He advocated that banks are expected to bring about a qualitative change in the lives of rural individuals by giving effect to ‘Bharat Nirman’ plan, envisaged in the Union Budget 2005-06. He also emphasized the importance of taking appropriate policy measures for accelerating rural housing through public institutions participation. He opined that a healthy development of housing finance system is an essential ingredient to fuel growth in a market-based economy, like ours.

Jasmindeep Kaur Brar and J.S Pasricha, (2005) conducted a study to examine the opinion of the customers regarding housing loan offered by five main institutions (HDFC, LICHFL, SBHF, PNBHF and House Fed) in the state of Punjab. The study revealed that the customers of 3 out of 5 institutions were indifferent with regard to the services provided by the institution but the customers of other institutions were indifferent with regard to the services rendered by the institution. The customers of
all the institutions were of the view that despite the falling interest rate regime, all the institutions charged high rate of interest.

Praveen Gupta (2005), in his article, “Housing Finance Companies – An Insight into Regulatory Aspects”, stated that HFCs, both in public and private sectors, play an important role in providing housing finance in India. He critically evaluated some key regulatory aspects pertaining to HFCs in the light of various directives and guidelines issued by the NHB.

Avtar Singh Sahota (2005) in his article, “Schemes on Rural Housing”, narrates the new demand for dwelling units as a result of rapid growth of population and deterioration of old housing stock and the Governments commitment to provide shelter to all. He also made an evaluation of the various housing schemes for the rural poor and the initiatives taken by the state Governments. He suggested that while searching for technology option in rural housing, certain predominant aspects should be kept in view, such as, using locally available materials in abundance, using traditional though validated construction practices and technologies, using improved construction systems, and adopting options, which are least energy consuming and environment – sensitive.

Mani Pal (2005), in his article, “Panchayath Raj Institutions and Rural Housing”, providing a brief account of the housing shortage in the
rural areas and the role of panchayats to meet the requirements of houses in the rural areas as envisaged in the National Housing and Habitat Policy 1998. He opined that the Panchayats themselves should come forward to provide shelter to the villagers in the shortest period and should implement the centrally sponsored schemes in an effective manner by way of activating the Grama Sabha. In addition to this Panchayats should also take up the construction of houses by investing their own resources as well as by borrowing funds for the purpose from financial institutions.

In an article entitled “Is Housing Finance Safe as Houses?”, Srinivas Subbarao, P (2006) explained the factors influencing the housing finance, advantages of housing finance to banks and the drawbacks in housing loans. He highlighted the fact that Non-Performing loans in the Indian housing finance sector are much higher than those experienced in a developed market such as the U.S. This is a reflection of the industry’s aggressive marketing tactics and some inadequacies in appraisal standards and systems. Banks therefore should concentrate on providing loans within the prudent credit norms for eligibility and margin. If the Banks have not taken the prudential norms for housing loans they have to conduct recovery mela instead of present loan mela.
The forgoing reviews try to light the gaps and deficiencies in the popular area of study. It is noted that many of the case studies may not fit in for generalization in view of the nature of the methodology adopted and many of the other studies are made on a uniform basis and hence useful only for once. Since housing finance has got much significance in the present day context, an intensive study on this popular area yields more results and gives better understanding of the different aspects of housing finance. This can then become the basis for setting objectives and design for the study.