

CHAPTER – I

INTRODUCTION

1.1. INTRODUCTION

Food, Clothing and Shelter are the three basic necessities of human being. India being the second largest populated country in the world, housing is one of the major problems faced by it. Provision of housing facility for India's more than one billion people is an uphill task. The breakdown of joint family system, migration of labourers from rural to urban areas, uneven and unplanned growth of regional areas, increasing unemployment, poverty and inflation have further aggravated housing problem. The other contributing factors are poor infrastructure facilities scarcity of available land, and increase in cost of construction.

It has been estimated that more than half of the world's people will soon live in cities. United Nations figures for urbanisation report shows that more than 60 million people, roughly the population of the United Kingdom are added to the planet's cities and suburbs each year (The Hindu, 2007) mostly in low – income urban settlements in developing countries. Unplanned urbanisation is taking a huge toll on human health and the quality of the environment , contributing to social, ecological and economic stability in many countries.

Around a billion urban dwellers a sixth of the planet's population are homeless or live in crowded tenements, boarding houses or squatter settlements. Since early 1960's housing problem in developing countries became a subject of international concern.

Real estate activity is an important indicator of the health of an economy. An upward trend in real estate heralds an upswing in economic growth. Hong Kong, Taiwan, Korea and Singapore are perhaps the most outstanding examples of developed societies that used real estate sector to lift their economies into the vibrant and diversified ones as they have now become. (Business India, 2012)

The housing industry is important because it directly addresses one of the basic needs of society viz, shelter. In India, housing activity carries socio – economic implications. In social sense, it is related with the well being of people where as, in economic sense, it can provide profitable investment towards sizeable capital formation. The construction sector provides significant stimulus for other sectors to grow and is intimately linked to the country's economy. There are approximately 250 industries directly or indirectly allied to this one sector alone. Construction is the fourth most important sector amongst 14 others (Electricity, gas, water supply, forestry, transport, etc.,) in terms of 'back ward linkages' and third in terms of the 'total linkage co efficient' (The Financial Express, 2008).

The stimulus for the economy will come from higher off-take of inputs for construction, particularly cement and steel, as part of the backward linkage. The forward linkage is with the things that people need to put in their new homes, such as furniture, consumers durables, furnishings etc., demand for which also gets a fillip. A 10 percent increase in this sector can generate Rs. 62,000 crore in national output , besides employment for 29,57,000 workers in various sectors i.e., a two and half percent increase in total employment (Subbulakshmi, 2008)

Construction industry provides a lot of employment opportunities both directly and indirectly. Construction sector continues to be the third largest employer of the work force in India. The housing sector alone contributes roughly four percent of the Gross Domestic Product (GDP) and 10-13 percent of Gross capital formation. the building sector provides employment to 15 percent of the work force. (Prashant Mahesh, 2008). The tremendous potential of the housing sector to induce economic growth, with its potential to provide employment, generate income and to act as a stimulus for other sectors has rightly earned it the label “Engine of Economic growth”.

Apart from employment generation and GDP growth as it is one of the basic duties of a government to fulfil the basic needs of its citizens like housing, the government of India took a lot of initiatives to boost housing sector. To encourage construction of houses the government announced tax incentives under the Income tax Act. The interest limit on housing loan that can be set off against other income has been increased from time to time and now there is no limit for this amount. The deduction limit of principal repayment towards housing loan has been increased to Rupees 1,50,000 along with other savings (Budget, 2015).

Housing finance is an important input of housing. A number of housing finance institutions have come into existence in the recent years. They primarily cater to the needs of middle and higher income groups. Though a lot of banking companies and other financial institutions ventured into the field of housing finance, lot of problems are experienced by the borrowers. Most of these companies target the salaried class as the repayment of loan is considered to be highly secured. Right now, several housing finance companies, commercial banks, co-operative banks and societies apart from government is lending to housing projects.

The multiplier effect of investment in housing in India has grown over the years as housing loans as a percentage of GDP increased from 3.4 percent in 2011 to 6.1 percent in 2014. The new monetary and credit policy announced by the Reserve Bank of India (RBI) has resulted in an increase in lendable resources of the banks by several thousand crores and banks are adopting liberal credit policy. A paper on real estate development estimates that housing and real estate have the potential to grow at 14 percent. The demand for dwelling units will grow to 90 million by 2020 which would require a minimum investment of \$890 billion (Ramachandran, 2012).

Among the Indian society, owning a house itself is a pride. Apart from this, construction of a house is a wise financial decision. As the value of land is ever increasing and even if the house is constructed with borrowed funds, it proves to be an economically viable decision as the appreciation in the value of the house is much more, than the interest payable on borrowed funds. While every one wishes to have his own house, construction of a house is not an easy task. Housing is one activity where people actually find it difficult to save first and then buy. Hence for many people housing finance seems to be the only feasible solution. The cost of construction of a house in India is roughly five to ten times of the annual family income. The demand – supply gap in housing stands at 33 million units, calling for an investment of Rs.1,50,000 crore (The Hindu, 2012).

In spite of a strong desire from individuals to have their own houses, the encouragement and concessions offered by the government and the existence of so many housing finance sources, India has not achieved self reliance in the housing sector.

1.2. STATEMENT OF THE PROBLEM

Shelter is a basic human need. To ensure the dignity of the individual and preserve the living quality of the family, basic amenities and residential privacy are essential. If there are 100 million homeless families in the world, India has about 23 million of them. According to Government of India' statistics, the demand – supply gap in the house hold sector stands at roughly 33 million. In Tamil Nadu alone, the housing shortage according to 2011 census is estimated to be two million units.

There are some financial institutions which are directly involved in housing finance, some others are engage in re-financing. Housing Development Finance Corporation (HDFC). Life Insurance Corporation Housing Finance (LICHF), General Insurance Corporation Housing Finance (GICHF), Bank of Baroda Housing Finance (BOBHF), Can Fin Homes Ltd (CFHL), are major players in housing finance market. As on date, there are over 31 housing finance companies registered with the NHB. More and more commercial banks and co-operative institutions are also venturing into this field.

Indian housing finance industry is fragmented. There are a lot of differences among various aspects of housing finance. There are differences in the (a) rate of interest charged. (b) mode of charging interest and (c) method of charging interest. While some institutions adopt annual rest, some follow monthly rest and even daily balance method. Further apart from fixed rate and floating rate of interest, now-a-days some institutions offer flexi-rate loan where in the rates are fixed for the first five years and there after borrower has an option to avail himself of either floating or fixed for the balance tenure of the loan.

Some institutions charge in the name of processing fee and administration charge a meagre sum. Further, there are variations in default charges, pre-closure charges, amount of loan sanctioned, time taken to sanction the loan, legal expenses and other procedures followed while obtaining a loan.

Due to stiff competition in housing finance industry, lot of services are offered by housing finance institutions. They include additional loan for repair or renewal of the house, consumer loan for home loan borrowers for the purchase of consumer durables, household goods, personal computer, Motor cars and two wheelers. Some institutions offer credit cards and free home insurance, some others are more flexible regarding terms of the loan.

In this context, the following issues emerge. Why do the borrowers select a particular lending agency? Are they aware of the various aspects of housing loan? What are the determinants of awareness of the borrowers? Whether they are really satisfied with the services provided by lending agencies? What factors influence the satisfaction of the borrowers?

1.3. OBJECTIVES OF THE STUDY

To find answers to the questions raised, the study is undertaken with the following specific objectives.

1. To describe housing and housing finance scenario in India.
2. To examine the loan seeking behaviour of the borrowers of housing finance.
3. To ascertain the determinants of awareness of the borrowers of housing finance.
4. To identify the factors influencing the level of satisfaction of the borrowers of housing finance and
5. To offer suggestions for enhancing the awareness and satisfaction of the borrowers of housing finance.

1.4. SIGNIFICANCE OF THE STUDY

The findings of the study may lead to increased financial assistance and better service to the borrowers of housing finance. The study may throw light on the problems faced by the borrowers regarding housing finance. The results may guide the financing agencies to render better service in tune with the aspirations of the borrowers. The prospective borrowers may also be benefited since they can know the right source of finance. Further, the study may enable the government in formulating housing and taxation policies.

1.5 PERIOD

The study covers a period of 10 years. The borrowers of housing finance, who have availed loan from 2005 – 2015 have been contacted for the collection of data in Tiruchirappalli district of TamilNadu State.

1.6 METHODOLOGY

i. Data Collection

The data required for the study have been collected through an interview schedule. Hence the study is based on primary data. The interview schedule has been developed after consulting the officials of housing finance lending agencies and borrowers of housing finance. The interview schedule consists of questions relating to personal profile, residential details, finance particulars, awareness and satisfaction of the borrowers. Further a pilot study was conducted and based upon it, the structure of the interview schedule was finally redesigned. The secondary data required for the study have been collected from various publications and reports.

ii. Sampling Procedure

Trichy District is one of the developed districts in the state of Tamil Nadu. It consists of Eight taluks. Trichy taluk is selected for the study. Detailed

data collected from government authorities reveal that during the period from 2005 to 2015 nearly four thousand new houses have been constructed in this taluk. This prompted the selection of this taluk as the study area. Based upon the list collected from the authorities 500 borrowers have been selected by using random sampling method. Responses from 91 borrowers have been found unusable. Hence the study is based upon the information furnished by the remaining 409 borrowers.

1.7 FRAME WORK OF ANALYSIS

Data collected from the respondents have been analysed with the help of the following statistical tools.

- i. Simple percentage
- ii. Arithmetic mean
- iii. Chi-square test
- iv. Analysis of variance (ANOVA)
- v. Simple Correlation
- vi. Multiple Regression and
- vii. Step-wise Regression

1.8 SCOPE OF THE STUDY

The study is mainly intended to find out the loan seeking behaviour of the borrowers of housing finance. Ascertainment of the determinants of awareness and the factors influencing the level of satisfaction of borrowers are the other aspects of the study. The study is focused on the borrowers of housing finance, who have constructed houses.

1.9. TERMS USED IN HOUSING FINANCE

i. EMI :

An EMI means 'Equated Monthly Instalment'. It is the amount payable by a customer to the lender every month till the closer of the loan.

ii. Hidden Charges :

The documentation charges, consultation fee of an advocate to get the title clearance for the property etc, levied by the lender are considered to be the hidden charges.

iii. Home loans :

Home loans are loans that are available to buy or build a house. Home loan and housing loan are used inter changeably.

iv. Housing finance :

Housing finance is a provision and arrangement of money or finance provided to facilitate purchase of a new house / flat and also for construction, extension, renovation, repair or maintenance of existing dwelling units.

v. Interest tax :

Interest tax is a tax on the interest paid on the loan.

vi. Pre – payment penalty :

A pre payment penalty is a charge payable by a borrower to the lender when he / she returns a part or whole of the outstanding loan, before it falls due.

vii. Processing charges :

Processing charges is a charge that the customer has to pay on the loan applied for by him / her. It is a certain percentage of the loan applied for by a customer.

viii. Rate of Interest :

It is the rate at which interest is payable by a customer to a lender for the borrowed money.

ix. Satisfaction :

Satisfaction is the level of a person's feelings from comparing a product's perceived performance or outcome in relation to the person's expectations.

x. Tenure of loan :

The tenure of a loan is the period for which a customer has opted to repay the loan.

1.10 LIMITATIONS OF THE STUDY

The study is based on the data collected from borrowers of housing finance residing Tiruchirappalli District. Hence while generalizing the results, caution may have to be exercised. Any limitation that pertains to an opinion survey is bound to be applicable to this study as well.

1.11 CHAPTER SCHEME

The report of the thesis is presented in eight chapters.

The first chapter introduces the theme and design of the study. The statement of the problem, objectives of the study, methodology, the frame work of analysis and the significance of the study are presented here.

An overview of housing and housing finance scenario in India, housing policy and sources of housing finance are given in second chapter.

Third chapter deals with the review of related literature available in the area of housing and housing finance. The results of the study carried out and the gist of articles published in this are also given in this chapter.

Chapter four gives a detailed account of the socio-economic profile of the sample borrowers.

The loan seeking behaviour of the borrowers is discussed in the fifth chapter.

Sixth chapter deals with awareness of the borrowers of housing finance on various aspects of housing finance. The level of awareness and its association with selected borrowers' attributes are given in this chapter.

The factors influencing satisfaction of borrowers of housing finance are given in chapter seven.

The summary of findings, suggestions and conclusion are given in the eighth chapter.