ANALYSIS OF PROBLEMS OF HOUSING FINANCE

The word 'Problem' refers to a harmful matter needed to be dealt with and overcome. When we consider over the problems of housing finance sector of India, then it is cleared that these are some natural or general problems which create hurdles in the path of smooth growth of this sector such as insufficient infra-structural development, unequal distribution of national capital, cost of acquisition of land, Government housing policies etc. These problems are of typical nature and require a long-term continuous attention and strong will-power to be rooted out from the side of Government of India as well as the society.

Besides, a number of problems are faced by the housing loan customers and housing financing agencies in Indian housing finance market. Hence for the convenience of the study the problems of housing finance sector of India are being discussed one by one-

8.1 GENERAL PROBLEMS OF HOUSING FINANCE SECTOR IN INDIA

Housing finance is comparatively a new concept in the finance sector of India. It is developed rapidly during the last two decades due to the enthusiastic interest of Government of India to cut-short the housing problem of the country. Although, the present environment of finance sector of India seems to be suitable for the uninterrupted growth of housing finance market, but there are few general problems, which create
obstacles either directly or indirectly. A brief study of these problems can be made with the help of following headings:

1. **GOVERNMENT POLICIES FOR HOUSING FINANCE SECTOR**

   Government considers housing as a primary segment of development. Government all efforts to boost up housing finance sector so that the maximum number of residents of this country may get their own roof. Fortunately in India the housing shortage has considered as a significant problem by the Government since beginning of last two decade i.e. from 1991. Giving the weight-age to this aspect Government has developed a series of housing policies and programmes especially for the weaker segment of the population. The lower or middle-income group population of India is considered to be suffered by the prospects of owning a house due to lack of affordability of big amount in the present time. The housing finance sector of the country is suffering from considerable financial resources and due to the low paying capacity of most of the Indian population, it finds itself handicapped to provide the financial assistance for dwellings to these people.

   In the present circumstance, the Government of India is trying to play the role of facilitator by offering a number of housing schemes for different sections of the society, but due to poor administrative control and lack of strong will-power most of the schemes are squeezed only upto the primarily levels and are never attained its ultimate objectives.

   Besides, the role of Government of India to boost up housing finance sector is limited up to the formation of National Housing Board (NHB). Neither NHB has sufficient powers to regulate the housing
finance sector of India nor sufficient funds to handle the problem of shortage of funds in this sector. This is the reason why only few housing finance agencies are getting the benefits of NHB's schemes.

The steps of Government of India such as to cut down the interest rates on housing finance and to provide tax rebate on housing loans interest can be appreciated for boosting up the housing finance market in India.

2. ROLE OF HOUSING FINANCE REGULATORY AUTHORITY

The word 'Regulation refers to the specific constraints in the natural growth of a sector and 'the Regulatory Body' is considered as a group of people who always indulge in search of the ways which could create checks and balances to hinder the unplanned and improper growth of related area.

The regulatory body of housing finance sector of India is National Housing Bank, which came into existence in 1988. The origin of National Housing Bank (NHB) was basically as the apex institution of housing finance sector of the country to facilitate the development of a sound, healthy and sustainable housing finance system. Since its inception NHB is trying its best towards achieving this goal but could not get desired success. Till the end of March, 2010 only 51 housing financing companies were functioning under the regulatory control and guidance of National Housing Bank.

During the period of study, it was observed that NHB neither has sufficient power and network to regulate entire housing finance sector of country nor has sufficient funds to support the needy housing finance
companies. Even most of employees associated with housing finance sector do not know about NHB. One of the major lacunas of NHB’s functioning is that it never took any direct step to protect the interest of housing loan customers and limits itself as a refinancing agency only. Hence, the housing finance sector is not taking any significant advantage of NHB and is keeping itself separated from it.

3. DEVELOPMENT OF FUNDAMENTAL INFRASTRUCTURE FOR HOUSING AND TECHNOLOGICAL INNOVATIONS

Housing is primarily a urban phenomena. It needs same basic infra-structural facilities like roads development, electricity and water supply, proper drainage system etc. to grow. Most of these facilities depend upon Government efforts and interest. Secondary, the technological innovations in the area of housing construction also support and promote housing market in the country through cut down the cost of construction up to a reasonable level.

Both of these factors affect the housing finance market of the country directly. It is a good sign that the Central as well as the State Governments of India are worried enough about housing schemes regularly. But due to unstable political environment and red-tapism, alike the other areas, most of the housing schemes are limited up to paper work or within its primary stage. The basic infra-structural facilities for housing development are not available in most of the areas of the country. Although continuous efforts are made from the side of Indian Government but these are not enough to give a boost to housing industry. The higher income group of society is depending upon the private developers for infra-structural development of residential areas by paying
more amounts. What about the middle or lower income group? They are forced to live in unauthorized and undeveloped areas where housing finance facilities are generally not provided by housing finance companies.

As far as the question of technological innovations in the area of housing in India is concerned, it has been observed remarkable during last two decades. The multistory and colony culture have reached even in the town areas and efforts for reducing the cost of houses to make it available to a middle class person are showing fruitful results. The private builders and colonizer’s contribution in this particular area is praise worthy.

In District Meerut, it is observed during survey that the State Government has launched a number of schemes for housing development in the district, but private builders and colonizers could not show their presence in a significant manner. Although Meerut Development Authority and Avas Vikas Parisad are also going on their own way to minimize the housing problem of the district.

4. DISTRIBUTION OF NATIONAL CAPITAL AMONG POPULATION

The distribution of national capital among the population of the country affects the housing finance sector directly. If the capital of the nation is distributed among the population in a rational manner, the most of the population of the country will be in a position to dream for their own houses and the chances of growth of the housing finance sector of the country will remain higher.
Unfortunately in India, the distribution of capital among population is not justified even after all the efforts of Government of India. The report of National sample survey, India clarifies that about 36% of country’s population lives below poverty line and the further 52% can be categorized as middle-income segment.

As a result, the housing finance agencies of India get a limited clientele of sound repayment capacity. About 15 years before the housing finance companies of India approached only to higher or higher-middle income group of the country. Now due to the efforts and initiatives of Government, the housing finance agencies of country are taking interest in middle-income group. The repayment capacity of major portion of middle income group remains in doubt and legislative structure of recovery of dues from defaulting borrowers is not very much effective in the country. Hence the housing finance agencies are facing a problem of increasing non-procuring assets (NPA). It creates a great hurdle to export the maximum potential from middle-income group segment in favour of housing finance market.

5. NON-AVAILABILITY OF FUNDS

Financing in any area depends upon the availability of funds for the purpose. Housing finance is a long-term investment, which requires a great amount of funds.

One of the main problems of housing finance sector of India is non-availability of long-term capital for investment. Traditionally, the funds for the housing sector have come from the individuals themselves by way of their own savings or from the financial institutions that are primarily engaged in the intermediation process of channelizing funds
from the savers to the borrowers. However, the funds so mobilized through the formal sector financial institutions remain much lower than what is required to tackle the problems of housing finance in India.

In the absence of sufficient resources for long-term capital, the housing finance sector of India depends upon the Government of India's policies for its survival and the Government plays a significant role in making long-term funds resources available either directly or indirectly. Sometimes the Government provides substantial funds for housing at subsidized rates. The indirect way adopted by the Government for raising long-term resources for the housing sector is securitisation of mortgages. It offers a viable, sustainable and market oriented mechanism for long term funding.

Though, the Government of India is trying its best to promote the housing finance sector of the country, yet for the uninterrupted growth of the sector, it is necessary for the housing finance companies to keep in regular search of long-term financial resources to become independent.

The efforts of setting up a Real Estate Mutual Fund can also provide some support to the cash starved housing sector. The mutual funds should permit to hold the real estate assets to reduce the problem of shortage of funds in housing sector.

6. **HIGHER COST OF ACQUISITION OF LAND**

It needs not to be mentioned that in present time the supply of land is perfectly inelastic for a country. The availability of land in adequate quantity at the right place and at an affordable price by the individual is more important for housing finance sector. The inelastic supply of
suitable land results in a spurious increase in the cost of real estate. Besides, the very high stamp duty payable at the time of purchase of property is also cause an increase in the cost of land significantly. It get priced out many potential housing finance customers in owning a house.

On the other face, the high cost of stamp duty also results to show the value of land quite less than its real value. Housing Finance Companies extend loans on the mortgage of the property and the borrowers are required to execute document for creation of mortgage in favor of HFBs. If the property is undervalued, the HFBs will sanction the loan up to the paper value of property and it will reduce the borrowing power of individual. It is also a major problem for housing finance sector of the country. It is desirable that the Government should take bold steps in controlling the rates of land particularly in urban and nearby areas and should reduce the stamps duty up to a reasonable level. Besides, the stamp duties structure should be uniform throughout the country.

7. STATIC CULTURE OF THE SOCIETY

Among Indian society, housing is a life-time dream of an individual and a newly employed person can not even image for his own house due to his social and cultural backgrounds. Although this attitude of society is changing from last decade due to development of nuclear families tax rebate on housing loans.

Secondly, the debt is considered as an evil in Indian society and the concept of 'Deficit Financing' is not appreciated by the masses. This type of thinking discourages a person to avail the facility of housing finance and ultimately hurts the housing finance market of country remarkably.
Although this concept is now changing, which is evident from the fact that the average age of borrower is around 40 yrs.

The joint family culture of Indian society also legs the housing finance market to some extent.

8. SLOW PROGRESS OF HOUSING CO-OPERATIVE MOVEMENT IN INDIA

Housing activities can be promoted easily, when these are made by groups, because a group can handle all the technical as well as financial problems more comfortably in comparison to an individual. Housing financing agencies feel themselves more safe and comfortable to deal with a co-operative housing society.

In India, the National Co-operative Housing Federation of India (NCHF), established in 1969, is functioning under the administrative control of the Ministry of Urban Development and Poverty Alleviation.

The primary objective of NCHF is to promote, develop, co-ordinate and guide the activities of housing co-operative societies in the country. It also strives to provide a common forum for dealing with technical, financial and other practical problems relating to housing co-operatives and to devise ways and means of solving them. Promotion of apex federations in those states where such organisations do not exist, promotion of co-operative housing through publications, periodicals and exchange of information etc. are other objectives of NCHF.

Although the number of housing co-operatives in the country seems very large but when we consider over the total transactions of
housing finance made by these societies since their inception, it shows an unsatisfactory growth of this movement in India.

During the personal survey, this fact was revealed that due to the culture of combined families and Hindu undivided families in India, the co-operative concept is not very much appreciated by the society. This hurts the progress of housing finance sector significantly.

The most of the general problems of housing finance sector relate to the Government efforts, cultural attitude of the society and legislative nature require constant and steady efforts to be minimized.

8.2 PROBLEMS FACED BY THE HOUSING FINANCE COMPANIES

Housing finance is the most crucial element of the housing market. In the field of housing finance market of India private sector is playing much more active role in comparison to public sector. The Indian housing finance market is in its developing stage and is facing a number of problems. A brief study of major problems of housing finance companies of India can be made under following headings:

1. MUSROOM GROWTH OF HOUSING FINANCE AGENCIES

For last two decades, a big number of financial institutions, banks and co-operative societies are continuously entering in the housing finance market of India due to the following reasons-

- The Indian Government was promoting housing development activities and willing to provide all possible aid to the financers, developers and customers.
Housing finance was recognized as almost 100% secured investment.

Although it shows the increasing importance of housing finance sector but creating a disturbed environment in the housing finance market. The main reason of this is that most of the new enterents of housing finance sector do not have required experience, sufficient infrastructure and adequate funds. These Housing Finance Agencies are not sure about their polices and are creating confusion among the mind of prospective home loan buyers by introducing an ambiguous housing loan plans. It is sure that after a certain period all the unefficient players will be vanished from the market, but till then they will prove a major problem for the entire sector.

2. CUT-THROAT COMPETITION AMONG HOUSING FINANCE COMPANIES

Housing loan is considered, as the safe investment by Financial Institutions and every Housing Finance Company wants to capture more and more share of this segment. Hence a fierce competition is found in housing finance market. The competition affects positively to the housing finance sector up to a reasonable level, but after that, when lenders have to provide loans below their cost of funds, it converts into a threat for the entire housing finance industry.

As far as Indian housing financing industry is concerned, there is a fierce competition at present. All housing finance companies are using all possible means to attract home buyers. Alternative choices between floating and fixed rates are being offered. The housing loan amount has gone up to 110 percent of property value to meet out the cost of legal
expenses. Most of the Housing Finance Agencies are exempting processing charges to survive in the market.

This scenario of housing finance market is not good for the housing finance industry. Even Reserve Bank of India has recently voiced concern over competition in home loan financing and is thinking of making it mandatory for all Housing Finance Agencies to insist on a security margin.

3. NON-AVAILABILITY OF LONG-TERM FUND

Housing finance is a long-term investment. It is not easy for a housing company to arrange a huge amount of funds for long-term investment. As a result most of the housing finance companies generate their funds from short-term savings and current accounts of individuals and deploy these funds is long-term housing loans. It creates an assets-liabilities mismatch. Hence it is essential to provide subsidized funding through the Government for their survival.

In India, the financial condition of housing finance companies is not treated as sound as it should be. The Reserve Bank of India has warned these Housing Finance Agencies specially banks about the danger of borrowing short and lending more. For the arrangement of long-term funds, the Indian Housing Finance Agencies are considering over the following resources-

- Having raised a demand to allow pension and provident funds to invest in housing finance, because these funds are the supplies of long-term capital.
To revise the rulings of National Housing Bank in a liberal way for refinancing of Housing Finance Agencies of India.

To efforts for developing a secondary mortgage market which is also known as 'Securitisation'. It will ensure recycling of funds, but it requires a proper legislative support by making desired amendments in present Mortgage Act.

No doubt the paucity of long-term funds is a major problem of Housing Finance Agencies and affects adversely to their future prospective. Indian housing finance market is passing through a developing stage and everyone is excited to see its growth rate, but to sustain this trend for a long-term period, the government of India and the players of housing finance market should take a very serious note for this forth coming problem.

4. TRADITIONAL MARKETING NETWORK

A housing loan is inherently different from any other retail loan. This is because a house is probably the life time investment made by an individual. Hence, when an individual plans to purchase a house, he not only requires financial assistance but also seeks technical consultancy and moral supports. It has been discussed earlier in this chapter that the concept of housing finance is not favoured by the Indian society in natural process.

Under all these circumstances, a customer's friendly marketing network is essential for the rapid growth of housing finance sector. Unfortunately, the banking and co-operative sector of housing finance sector are not trying to understand the importance of this fact and are
going on with their traditional loaning marketing network. Although the private sector's housing financing agencies are serious about their marketing process, but these agencies do not have a wide branch network and are limited to metropolitan cities only.

In the long run, the banking and co-operative sector have to accept the fact that loaning is a bare business which needs professional approach to grow.

5. TYPICAL PROCESS FOR FORECLOSURE ACTION

One of the prime problems of housing financing agencies of the country is the cumbersome and time taking process of enforcing a mortgage in the event of default in payment of loan installment made by the borrowers. The mortgage and foreclosure laws of the country are not well defined and the Indian courts always have a lenient attitude in favour of borrower on sympathetic grounds. This is resulted in highly conservative lending practices and underwriting norms adopted by the agencies extending financial assistance for housing.

Government of India is taking this problem of housing finance sector seriously and has been advised to National Housing Bank (NHB) to amend its own Act in such a way that default lending could place in special category to be treated on priority bases for the purpose of recovery. In practice, such types of amendments of Acts take its own time in practical execution and till then housing financing agencies have to tackle this problem in their own ways.
6. UNCLEAR PROPERTY RIGHTS

Unclear property rights for rural and urban lands are also a major problem for housing finance sector of India. It is a complex and knotty problem and is survived because of a number of reasons i.e. a cumbersome land registration procedure, a high stamp duty, the existence of complex tenancy law, urban land ceiling Act etc.

The unclear property titles severely reduce the housing finance market, because housing finance companies do not like to play game after financing such type of disputed properties. At the most these properties are used as collateral securities and limit housing financing to those property owners who have proper title. This problem can be minimized only when the Central and States Government of India take serious steps to amend the related legislative laws and procedures.

8.3 PROBLEMS FACED BY THE HOUSING FINANCE CUSTOMERS

The present time is considered as the best period for housing finance seekers, but it doesn't mean that they are not facing any problem in availing the housing finance. In fact they have to face a number of problems. A brief study of some major problems are as under:-

1. CUMBERSOME NATURE OF HOUSING FINANCE

A housing loan deal is entirely different from the other types of loans. It has been noticed that the housing loan customers do not just require finance, they also need ancillary services like loan counseling or legal advice to ensure that the title of property is clear or technical advice
to ensure that the structural aspects and valuation of the property are in
proper order.

During survey this fact was revealed that a general housing loan
borrower of study area belongs to the upper or middle class, is of an
average age of 40 years, typically a first time home buyer and by and
large a salaried person. Naturally he gets confused when he decides to
avail housing finance facility, because most of the housing loan products
are fairly standardised and having its own technical details. The housing
finance is available at fixed or floating rates. A number of offers and
promises are announced by different housing finance companies. At this
stage, a general housing loan customer finds himself helpless to reach at
some fruitful conclusion and is governed by the manipulated advises and
approaches. This leads him ultimately to unsatisfactory decisions.

The housing finance companies should train their executives
properly and instruct them to guide the probable housing loan seekers in
ture sense without considering the short-term interests of the company.

2. LACK OF RELIABLE INFORMATION REGARDING
HOUSING FINANCE SECTOR

It is a surprising fact that in the present days everybody talks about
the housing finance, but does not find him able to make comparative
analysis among different housing financing agencies. Generally his
discussion limits up to the interest rates of housing finance and monthly
installment only, he does not know about the technical details of the
housing loan.
Amazingly like other sectors of finance i.e. banking, insurance, stock market, there is no specific magazine of housing finance available in the market through which statistical data and facts of housing finance market could be revealed in a systematic way. The magazine of other financial sectors covers this topic only in its regular features. It's not only a big problem for housing finance seekers, but also shows the disability of housing finance companies in launching customer's awareness programmes properly. This is not a good sign for the uninterrupted progress of housing finance sector.

3. HIDDEN COSTS AND TERMS AND CONDITIONS OF HOUSING FINANCE

As discussed in earlier point, a general housing loan customer does not have sufficient knowledge of housing loan and selects a housing finance company randomly. But after taking housing loans when a borrower encounters with the other hidden costs of housing loan such as processing fees and file charges, heavy penalty at any delay in payment of loan installment, penalty on premature payment of loan etc. he finds himself embarrassed and helpless at that stage. Generally the friendly services of marketing executives of housing finance company remain available up to the sanction of housing loan only. No concept of after-sales-service is found in housing finance sector like the insurance sector. This scenario is neither good for housing finance customers not for the future of housing finance industry.
4. LACK OF FLEXIBILITY IN PAYMENT OF LOAN INSTALMENTS

The business class customers of housing loan feel some problem with the strict term of payment of equal monthly installment (EMI) of housing loan on due time, otherwise they have to pay abnormal and heavy late payment penalties. A business class person also lives in uncertainty and among the seasonal fluctuations. Due to the reason he does not like to trap himself with a long time strict regular payment liability. Generally he wants relaxations to make the payments of EMI according to his convenience in housing finance companies at present. This is the prime reason that housing finance schemes are more popular in service class sector in comparison to businessmen.

5. SHORTAGE OF PROFESSIONAL BUILDERS AND DEVELOPERS

In India, the culture of professional builders and developers is not very much popular in the small cities. In big cities like Meerut there was only one organized professional colonizer's firm was working till the 10 years back. Although, a number of builders of India level are now functioning for the development of city but they are much more interested in development of market complexes rather than residential colonies.

The unauthorized and small builders have ruined the housing market of small cities by adopting several types of malpractices. The housing finance customers feel the shortage of genuine and professional builders in their areas, on which they can depend upon.
6. TIRESOME AND TECHNICAL PAPER FORMALITIES

The approval of a housing loan depends upon the proper compliance of the all tiresome and technical paper formalities such as income proof, to prove the genuineness of property purchased, approval of local development authority, mortgage documentation etc. Generally a housing loan customer becomes hopeless to fulfill all these paper formalities several times during the processing period. Moreover, in spite of all positive attitudes, the housing financing agencies remain strict on compliance of these formalities, are aware of the complexity of legal documentation system of the country and want to ensure themselves by all means.

This is one of the prime reasons due to which a general person avoids to arrange housing finance through authorized housing finance agencies and explores his personal resources to meet out the requirement of housing finance.

7. FLUCTUATING HOME LOAN INTEREST RATES

The day to day changes in home loan interest rates also creates confusion in the mind of prospective home loan customers. Besides, the home loan interest rates offered by different Housing Finance Agencies vary from customer to customer and company to company. The customers always try to search the most attractive housing finance sector to avail but it proves a tiresome and depressive job. From the last decade home loan interest rates had been falling, but at the end of 2004 till to date these are going up which is making hurdles in the pace of development of the housing industry. Although the Housing Finance Companies offer the fixed or floating rates option for the customers, but it
proves to hard to a general customers to opt a suitable option. If a customer finds his decision wrong, he has to bear the switching cost i.e. cost of converting fixed loan rates to floating loan rates or vice-versa.

For the smooth growth of housing finance market the stability of interest rates is essential. It will not only ease the individual customers but also support the professional builders to sketch a long-term planning. It is expected that the interest rates for housing finance would be stabilize in the long run when the boom period of this sector will over.

8. **INSUFFICIENT AMOUNT OF HOUSING FINANCE**

When an individual plans to purchase a house with the help of housing finance available in the market, he has to face the problem of inadequate financial support from the side of loaning agencies. First of all, most of commercial banks and co-operative societies have a margin clause in its loan schemes. Margin clause refers to the proportion of the loan amount to be brought in by the borrower from his personal resources. It means, the cost of the house purchased is not entirely financed by the banks or co-operative societies. These institutions generally finance 75 to 90 percent of the cost of the property (the registered value of the property). The balance amount is to be arranged by the borrower from his own resources either from his savings or personal borrowings from other sources. This usually acts as a major constraint for home loan borrowers, especially for the borrower who is seeking for a large amount of finance.

Further, the home loan buyers also require funds for stamps and registration charges, which remain approximately 15% of the cost of
property. All these restrict the imaginations of an individual to become a pride house owner.

In the end, it may be concluded that the major problems of housing finance sector of India are shortage of funds, inadequate mortgage and securitisation laws, unhealthy competition among housing finance agencies and traditional thinking of Indians etc. Housing finance is a market with infinite growth potential. The Government as well as the housing financing agencies should effort more to improve the creditability and functioning of housing finance system in India.