CHAPTER VII

CONCLUSION AND RECOMMENDATION
7. **Conclusion & Recommendation**

Although Govt. of India has taken various steps to remove the problem of housing shortage and tried to provide enough quantity of housing finance yet these steps are not enough. The working committee, formulated for the X five year plan, observed that about 90% of total housing shortage belongs to economic weaker section & Lower income groups, So it is clear that such housing policy and housing finance policy will be success in India which will be formulated according to need of poor person and citizens of rural areas. In Indian context the causes of insufficiency and non-availability of housing and housing finance are given below-

There is a serious problem of houses in urban areas of India due to industrialization, employment and education etc. Due to above reasons the migration of the population towards cities is increasing rapidly. People belong to EWS and LIG can not afford the home loan from banks and HFIs because there are not such housing finance policies so that poor person can fulfill the formalities of documents, required by the banks and HFIs. The problem of Urban Slums is drastic. Without removing it housing policy can not be succeeded. Govt., is performing some plans in respect of the removal of slums but these are not satisfactory Govt. should provide houses at subsidy based housing schemes or rented housing at nominal rent.

The major part of the population of the country lives in the rural areas and most of them have not a regular source of income. Due to this reason they can’t afford to build their own houses. Most of the people of the rural areas belong to economically weaker section and Lower income group. In these conditions Banks and HFIs do not pay
their interest to finance them. The above mentioned problem needs a very serious and quick action.

The role of the government is important in formulating the housing and housing finance policy but the government has not taken effective steps so the problem still exists. Although the government has been providing funds for housing in various five year plans yet it is not enough for removing the housing problem of the country.

The banks and Housing finance institutions of both public and private sector are providing housing finance to the customer but in ground reality there are number of problems which may be the cause of low or poor disbursement of home loans. For this instance we may light on some facts which are obstacles in house financing facilities-

In India if any person would like to avail home loan from any banks or NBFCs to own a house, he has to complete number of formalities such as. Income proof, residence proof, Income tax return or form 16 and bank statement etc. It means if somebody is engaging in advisor module or a farmer, he has to strive hard to avail this facility from the banks. Poor or low income people can not avail the facility of home loan.

Other problem related with home finance availability is that the companies decide negative areas (dhar areas) and if somebody belongs to these areas, he hardly get this facility from the banks and NBFCs.

Property papers are the obstacle in getting home loan. Housing finance companies avoid to finance upon the land developed by society etc. That means the banks and HFLs provide housing finance on those lands which are developed by the government authority.

A Vital problem in this system is the problem of accessibility. A person has to follow up the lengthy procedure and has to wait for
long period to avail home loan. Causes of the long period of procedure are such as income proof, property survey, profile survey and no. of other legal requirements.

While in other countries like Singapore, China & U.K. the accessibility is quite easy and procedure is very convenient. In above countries you have to drop a SMS or call to the concern bank of HFIs. Then the consent person will contact you as per your convenient.

Low disbursals of loans are other problem and increasing percentage of None performing assets is the cause of above problem. Any bank or HFI is operated to get some profit by providing services. Default ratio of home loan is quite higher in compare to other loan products in India. Because of NPAs banks and NBFCs try to drain the customers in terms of their profile, income etc. and then provide loans.

Next problem for low disbursal of home loan is the problem of tenure of the loan. Singapore allows up to 35 years for paying the mortgage while this duration is 30 years for U.K. and China. If we compare it to tenures in India banks here seldom allow the tenures beyond 20 years and 25 years in special schemes by selected banks or HFIs.

Higher rate of interest for home loans is another factor for low financing. While ROI on home loans are very low in compare to Indian home loan rate of interest. Home Loans are availed in 7-13% but home loan is available at 25-4% in Singapore, 4-7% in U.K. and 5-7% in China so there is need to reduce the rate of interest on home loans.

Another problem in this housing finance system in the procedural delays in sanctions and approvals of the home loan.

Govt. has permitted 100% Foreign Direct Investment for development of township including housing build up infrastructure
and construction development projects. Due to procedural delays in 
sanctions and approval of the projects, private players in housing 
finance sector take least interest to provide FDI in this sector.

Resource mobilization is another drawback of the housing 
finance system. The housing sector requires huge investment to tackle 
the housing sector requires huge investment to tackle the housing 
shortage in the country over the next four years period up to 2012. 
Resources need to be mobilized through the domestic as well as the 
international markets. In order to do so, a multi-pronged strategy and 
multi institutional approvals must be adopted to tap retail and bulk 
savings, surpluses from households, communities and institutions.

In this country housing cooperatives have not developed their 
own funds. They depend entirely on the Government and LIC of India 
as main source of funds. The main defect with our housing 
cooperatives is that instead of functioning as viable and self reliant 
institution, they act as only distribution agencies for the funds 
borrowed from others. We want them to mobilise their own funds 
within themselves and finance the housing cause in a more 
responsible and useful manner. At present, too much dependence on 
other agencies for funds is an inherent defect of cooperatives.

The most importance lacuna in the existing finance system that 
there is no country wide institution to combine regular saving scheme 
with provision of housing in adequate amount on reasonable terms. 
Even though the linking of saving schemes is an essential feature of 
the housing finance system, our housing system is in want of that. But 
several countries have such institutions.

The main problem of private banks and HFIs is that such banks 
and HFIs have not desire to approve the housing loan in rural areas 
whereas about 70% of the total population belongs to rural areas.
Some-times these banks adopt the unfair ways to recover the loan from their customers. The events of the recovery of the home loans with the help of the force, became very common. Such type of banks and HFIs want their betterment not of their customers. They have the perception that the default ratio of rural areas would be higher in compare to metro areas. To approve home loan in rural area, the banks or HFIs have to make special efforts for survey of various aspects of the borrower.

In addition to this it is the ground reality that private players (Like private banks, NBFCs) always try to tap large amount and cream credit profile customers. They are least interested to provide finance to people of LIG & EWS. Such banks are more concentrated in cities only.

The house mortgage as a percentage of GDP is very low in our country while this percentage is higher in foreign countries like, U.K & Singapore. This percentage was 4% in India 68% in Singapore and 72% in U.K. it is needed to increase this percentage to strengthen the housing finance sector.

If we talk about housing finance structure and housing finance system in international perspective, we find that the structure of housing finance of Singapore, China and U.K. is very strong and effective to provide housing finance to various income groups of people. The problem of housing shortage is almost absent in Singapore. The Govt. of Singapore provides rental houses to such people who can not afford the investment for the own houses. But it is not the permanent arrangement. After getting proper source of income Govt. provides them financial support for purchasing their houses.
The problem of housing shortage exists in China and U.K. also but not so drastic as in India because the structure and system of housing finance is strong and effective in U.K. and China in compare to India.

The China and U.K. are also facing the problem of the housing shortage but it is not so drastic as in India because the structure of housing finance in U.K. & China is stronger and more effective than that of India.

In these situations it can be said that there is a need of such housing finance structure in India that can easily provide the facility of housing loans for the people of all income groups especially for EWS and LIG.

RECOMMENDATIONS

"When there is a problem, there is a solution." Although there are number of problems in the housing finance system in India in compare of Singapore, China & United Kingdom yet after implementing some suggestions we can minimize the problems of housing finance system in our country. The following are some of the specific recommendations related to India housing finance system.

1. In addition to commercial banks, their housing finance branches and HFIs, even cooperative banks and Regional Rural Banks may be involved in rural housing financing considering the increasing deficit of houses emerging every year. The Govt. can formulate such policies so that banks and HFIs can not ignore the housing finance for rural areas.

2. The state Housing Boards have to give due attention to rural areas also.
3. The rate of interest on home finance is higher in comparison to Singapore, China & U.K. so the interest rates have to be rationalised in keeping with the market rates and borrower’s capacity of repayment.

4. The survey and other procedures has to be simplified and extended to the NGOs and other institutions toward decentralisation to save the time.

5. To encourage the primary lending institutions (PLIs) to enhance credit flow to poor / EWS in rural and Urban areas. Govt. may consider complete tax exemption on profit driven from the business of long term housing finance for the weaker segment of the population.

6. In view of the limited domestic institutional capacity to fund for housing, HFCs may be allowed to raise external commercial borrowings (ECBs) from the international market. This would enlarge resource base for housing sector as also bring in international stake holding.

7. The public-private participation should be encouraged in this field.

8. Investments from Non Resident Indians and persons of Indian Origin should be encouraged in housing sector with a level playing field between foreign investors NRI/Ps /PIOs and domestic investors. Special efforts are needed to simplify procedures pertaining to avoid delays and least interest.

9. It is needed to formulate such conducive and supportive fiscal, monetary and regulatory framework for banks and other participants to actively engage in Residential Mortgage Backed Securitisation (RMBS) transactions.
10. Liquidity of housing finance with a particular reference to people of EWS & LIG has to be improved so that financial institutions are in a position to supply requisite funds. In this regard, securitisation, External commercial Borrowings, FDI and creation of HIT (Housing Investment Fund) or REIT (Real Estate Investment Trust) and REMF (Real Estate Mutual Fund) etc. must be encouraged.

11. The repayment of home loan can be tied up with Provident Fund, if borrower has not liquid money but it is also necessary that the amount must be returned in Provident Fund in the condition of selling the property as in Singapore. Housing Investment Fund may be formulated as in China.

12. Saving based housing finance schemes can be formulated.

To conclude above study it may be said that after implementing of above recommendations, most of the problems of housing finance in India will be removed.