CHAPTER 1

INTRODUCTION AND DESIGN OF THE STUDY
CHAPTER - I

INTRODUCTION AND DESIGN OF THE STUDY

INTRODUCTION

The basic needs of mankind are food, clothing and shelter. Of these, housing is not only a basic need but it also provides a sustainable base for the upgradation of the economic status and quality of the life of people. The arithmetic progression of population and also the migration of people from rural areas to urban areas for employment have increased the housing demand day by day. Against the milieu of rapid urbanization and a changing socio-economic scenario, the demand for housing has grown explosively. Due to change in economic and social status, people now have a desire to own a house.

National Building Organisation estimates that nearly 25 lakh houses are built every year in India. However, the nation’s requirement is around 65 lakh houses per annum. The housing sector in India is facing an estimated shortage of 4.1 crore houses. If case of all these urban housing dwellings were to be built, it
would require an investment of Rs 150370 crore\(^1\). The desire for a safe and secure home is timeless and universal.

A house is generally the single largest investment an individual makes in his lifetime. Moreover, the emotional dimension of a house makes it intrinsically safer for lender. Another factor that adds to the safety of the loan is that most borrowers have a significant level of personal money invested in a house. Suppose they lose possession of a house, it would mean a lot of personal wealth slipping out from them. In order to achieve the ambition of Government of India for providing “A house for each family”\(^2\), housing finance institutions are implementing various housing schemes according to the affordability of different income groups of people.

Housing finance helps to provide employment opportunities to a large number of people who are skilled, semi-skilled and unskilled in the construction industry of unorganized sector. It also provides a very good fillip to the business opportunities of people who supply construction materials of all kinds. The repayment of housing loans is satisfactory when compared to all other types of lending.

Almost all the commercial banks, development banks, special housing finance institutions provide wide range of funds to the needy people according to

---

\(^1\) http://nbo.nic.in
\(^2\) www.housingfinance.com
their repayment capacity. Our country witnesses spectacular growth in this field, which acts as a catalyst in the growth and development of economy. Housing finance has become a powerful mechanism of economic development.

The housing finance sector in India has undergone unprecedented change over the past five years. The home loan market in India has never been so good. With the real estate boom, the growth in home loans and falling interest rates has enabled the Housing Finance Companies (HFCs) to offer its customers various alternatives to choose from buying a home loan starting from various types of loans to flexible tenures and repayment options. Today, the amount of money that a city dweller spends on rent is roughly the same, or only slightly less than the amount he pays as an EMI on a housing loan.

Earlier the home loan sector in India was solely dependent on nationalised and public sector banks, but the entry of private sector banks into the housing finance business marked the beginning of the first round of interest rate cuts. And this reduction in interest rates has enhanced the borrowing power of customers. Moreover, HFCs are offering some incentives to attract investors.

- Some companies sanction the housing loan without requiring you to identify property as a pre-requisite for eligibility.
- Free accident insurance and property insurance.
- Waiving of prepayment penalty.
• Waiving of processing fee.

The Indian Housing Finance Sector is crowded with players of government organizations, insurance companies, banks, Housing Finance Companies and co-operative organizations like Housing and Urban Development Corporation and National Housing Bank. Major players in the industry are Housing Development Finance Corporation, LIC Housing Finance Limited, Dewan Housing Finance Limited, Canfin homes Limited, SBI Home Finance Limited and Gujarat Rural Housing. The youngest entrant into the industry, which is penetrating rapidly, is Industrial Credit and Investment Corporation of India. The industry comprises of nearly 383 housing finance companies although disbursements from only the leading 26 institutions are eligible for re-finance from National Housing Bank, which is the regulatory body for those companies. These Housing Finance companies constitute nearly 95% of the total disbursements by the industry.

Over the years, however, banks have realized that while the demand for housing loans is tremendous, there is no substitute for prudent lending policies. Some banks have withdrawn from the housing loan market after being saddled with an unduly high amount of non-performing loans. Further, the Reserve bank of India has sounded several warnings to banks directing them to exercise caution in lending for housing finance.

3 www.nhb.org.in
Despite the above-mentioned factors, several bottlenecks still exist in the industry, which have to be taken care of, before any of the above can bring about an improvement in the prospects of the industry.

1.1 STATEMENT OF THE PROBLEM

Housing finance stands top in the financial sector today. Housing finance companies play an important role in the national economy. Though the housing finance banks are fast flourishing, they face problems due to various reasons.

Normally the local bodies make inordinate delay to approve the sites and plots. So house builders find it difficult to get approval of their sites, without which they can’t borrow loans.

There are some laws which are detrimental to development of housing sectors like Urban Land Ceiling Act and Rent Control Act. These Acts should be amended so as to make them suitable for the changing needs of the society.

The growth of population results in the shortage of housing continuously. The Government’s initiative for the development of housing is not up to the mark and is not in support of the successful implementation of this scheme. The cost of construction goes on increasing as the cost of land is skyrocketing and also the labour and material costs increase continuously. The lending banks too have enhanced their rates of interest.
The majority of poor people dwell in rural areas. They don’t have regular monthly income as employment opportunities are less in rural areas. With no or less savings village people are unable to think of their own houses. Many banks advertise low rates of interest for housing. But in reality interest rates are high as they add them with the principal every quarter in a year. They also include processing fee and other hidden charges. These are quite contrary to their advertisements.

Moreover, the housing finance banks advance loans mainly to the salaried class in India. The village people, unorganized non-regular income groups find it difficult to avail the housing loan facility. Hence an attempt is made to study the problems faced by the customers in availing the housing finance. In such a situation the following factors are important for the analysis.

- At what levels the various housing finance institutions renders services to utilizers of housing finance?
- What are the advantages derived by the utilizers of housing finance and the housing finance banks?
- What is the role of housing finance banks in achieving their objectives?
- What are the steps taken by housing finance institutions to meet the competitions in the market?
1.2 SCOPE OF THE STUDY

This study is undertaken to measure the customer service rendered by housing finance institutions in Namakkal District. The study will provide details of customer services rendered by housing finance institutions and the factors that contribute to the utilization of housing loans. It is hoped that the results of this study will propose policy measures for the betterments of the housing finance sector to achieve the aim of “Housing for all”.

1.3 OBJECTIVES OF THE STUDY

The main objectives of this study are

1. To study the customer services rendered by the various housing finance institutions.

2. To analyse the financial performance of selected housing finance institutions.

3. To ascertain the factors that contribute to the utilization of the housing loans of various housing finance institutions.

4. To determine the major problems faced by the customers of housing loan as well as the housing finance institutions.
5. To suggest better ways for marketing the housing finance service and recommending means to attain the desirable level of customer satisfaction in their services.

1.4 HYPOTHESES

Keeping the above objectives and the data collected for this study in view, the following hypotheses were framed and tested.

1. There is no significant relationship between area of residence and level of satisfaction in utilising housing finance.

2. There is no significant relationship between sex and level of satisfaction in utilising housing finance.

3. There is no significant relationship between age level of respondents and level of satisfaction on utilising housing finance.

4. There is no significant relationship between educational qualification and level of satisfaction on utilizing housing finance.

5. There is no significant relationship between occupational status and level of satisfaction on utilising housing finance.

6. There is no significant relationship between monthly income level of the respondents and level of satisfaction on utilising housing finance.

7. There is no significant relationship between family size of the respondents and level of satisfaction on utilising housing finance.
8. There is no significant relationship between awareness level of housing finance and level of satisfaction on utilising housing finance.

9. There is no significant relationship between housing finance institution and level of satisfaction on utilising housing finance.

10. There is no significant relationship between sanctioned amount of loan and level of satisfaction on utilising housing finance.

11. There is no significant relationship between monthly EMI and level of satisfaction on utilising housing finance.

12. There is no significant relationship between repayment period and level of satisfaction on utilising housing finance.

13. There is no significant relationship between level of satisfaction on services offered by the housing finance institution and level of satisfaction on utilising housing finance.

1.5 METHODOLOGY

The present study is designed to analyse customer services rendered by housing finance institutions in Namakkal District which consists of 4 Revenue blocks viz: Namakkal, Rasipuram, Tiruchengode, Paramathivelur. Samples for this study were taken from the beneficiaries of housing finance in this district.
1.5.1 Sampling Design

The study relates to the customer satisfaction towards housing finance in Namakkal district. In this district fifteen public sector banks, eight private sector banks and Life Insurance Corporation are providing housing finance.

It was decided to select three nationalized banks, three private sector banks and LIC housing finance limited for the purpose of study. Three nationalized banks were selected randomly by adopting lottery method. The same method was applied for selection of private sector banks also. LICHFL is the only insurance institution providing housing finance. Therefore, that institution is also selected. The institutions selected for the study are SBI home finance limited, Canfin homes limited, INDBank housing Limited, Housing Development Finance Corporation Limited, ICICI home finance limited, Dewan Housing Finance Limited and LIC Housing Finance Limited.

1.5.2 Data Collection

The study comprises both primary and secondary data. For collecting primary data interview schedule has been used. Before collecting primary data from sample of housing finance beneficiaries, a pilot study was conducted with an interview schedule from 10 respondents. The suggestions and modifications suggested by the sample respondents were included in the interview schedule.
The pre testing of interview schedule has been conducted with 15 interview schedules to know the adequacy of schedules for the analysis.

It was decided to have a sample of 100 borrowers from each selected institutions. Survey was conducted for a period of 3 months. Convenience sampling method was adopted to draw sample respondents. Though the aim was to select 100 borrowers from each bank, due to non availability of respondents and non response from some of the borrowers the researcher could not able to contact in total 100 respondents. Finally, the size of the sample was reduced to 600. The number of respondents from each institution were

1. SBI home finance Limited : 88
2. Canfin homes Limited : 82
3. INDBank Housing Limited : 89
4. HDFCL : 90
5. ICICI home Finance Company Limited : 81
6. Dewan Housing Finance Limited : 83
7. LIC Housing Finance Limited : 87

Total 600

The secondary data pertaining to the study were collected from the unpublished records of the housing finance institutions. Secondary data were also collected from various libraries of Tamilnadu universities, internet resources and
1.6 STATISTICAL TOOLS USED

The collected data were codified, classified and then tabulated with the help of computer. Statistical tools such as simple percentage, average, range (minimum and maximum), standard deviation, two-way classification analysis, chi-square analysis, multiple correlation, multiple regression, multi-discriminant analysis and factor analysis were used for analyzing the primary data. For analysing the secondary data the financial tools like selected ratio analysis and trend analysis were used.

1.7 AREA OF STUDY

The area of study for the present study is Namakkal District of Tamilnadu.

1.8 PERIOD OF STUDY

The secondary data was collected for a period of ten years from 1996-1997 to 2005-2006 from the unpublished records of housing finance institutions.
1.9 LIMITATIONS OF THE STUDY

The study suffers from the following limitations.

The market survey was conducted only in Namakkal District of Tamilnadu. Hence, the results arrived at from the study may or may not be applicable to other districts. Further, the survey method which was adopted for collecting the data in this study has its own limitations.

Out of the total population, only six hundred utilizers of housing loan were selected for eliciting first hand information. In view of the time and monetary constraints, it was not possible to contact more than the selected number of respondents.

Some respondents gave information about their economic back grounds like annual income, wealth details, from their memory as they had no account of them. Necessary cross verifications were made to reduce the biased information, wherever doubts arose.

Hence, the generalization of the findings of the study is subject to these limitations.
1.10 CHAPTER SCHEME

The present study has been divided into seven chapters.

The *first chapter* gives the intense and clear picture of housing finance, which includes Introduction, Statement of the problem, Scope of the study, Objectives of the study, Hypotheses, Research Methodology, Sampling Design, Data Collection, Statistical Tools, Area of the study, Period of the study, Limitations of the study and Chapter scheme.

The *second chapter* entitled “Review of Literature” analyses the earlier studies of housing finance.

The *Third chapter* focuses on the Overview of housing finance, which includes Origin and growth of housing finance, Housing position in India, Major players of housing finance industry, Existing scenario of housing finance and Challenges of housing finance industry.

The *fourth chapter* deals with promotional strategies and service rendered by the housing finance institutions and profile of Namakkal district.

The *fifth chapter* analyses the financial performance of housing finance institutions.
The *sixth chapter* focuses upon the main factor that influence the utilization of housing finance by the sample respondents.

The *seventh chapter* recapitulates the key findings and conclusions of the study. At the end of this chapter certain policy suggestions have been made for better working and utilization of housing finance services.