

Problems of Housing Finance in India

Dr. Rashmi Rani

Former Assistant Professor, Department of Commerce, Sri Guru Nanak Girls Degree College, Lucknow, INDIA

Corresponding Author: rashmigbkg@gmail.com

ABSTRACT

Housing is one of the basic needs of an individual in terms of safety, security, self-esteem, social status, satisfaction and achievement. A large amount is required to construct/purchase a house, which is generally not available to a person. Hence, over the last few years, housing finance has become an attractive business for financial institutions of India due to its low risk characteristics. But this sector has some problems which require attention. My present paper is an effort to draw attention towards the problems of this sector.

Keywords-- Housing, Housing Finance, Problems, Financial Institutions

I. INTRODUCTION

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, it is obvious that there are some problems which create hurdles in the path of smooth growth of this sector such as insufficient infrastructural 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 Govt. of India as well as the society.

Besides, a number of problems are faced by the housing loan customers and housing finance agencies in Indian housing finance market. Hence, for the convenience of the study the problems of housing finance sector can be discussed under the following separate headings:

(A) General problems of housing finance sector of India

(B) Problems faced by housing financing agencies

(C) Problems faced by housing finance customers

(A) General Problems of Housing Finance Sector of India

Housing finance sector is developing at a fast pace during last two decades due to the enthusiastic interest of Government of India to solve 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 hinderances either directly or

indirectly. A brief study of these problems can be made with help of the following headings:

1. Government Policies for Housing Finance Sector

Government of India announced a no. of housing policies and programs especially for the weaker segment of the population. The housing finance sector of the country is suffering from inadequate financial resources and due to the low paying capacity of most of the Indian population.

In the present circumstances, the Government of India is trying to play the role of facilitator by offering a number of housing schemes for different section of the society, but due to poor administrative control and lack of strong will power of most of the schemes are squeezed only up to the basic levels and never attain its final 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).

2. Role of Housing Finance Regulatory Authority

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 the 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.

During the period of study, it was observed that NHB neither has sufficient power and network to regulate and control entire housing finance sector of the company nor has sufficient funds to support the needy housing finance companies. One of the major drawback 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.

3. Development of Fundamental Infrastructure for Housing and Technological Innovations

Housing is basically an urban phenomenon. It needs some basic infrastructural facilities like roads development, electricity and water supply, proper drainage system etc. to grow. Most of these facilities depend upon Government efforts and interest.

As far as the technological innovations in housing in India is concerned, it has been remarkable during 1981-2001. the multistory and colony cultures have reached even in the town areas and efforts for reducing the cost of houses to make it available to middle class persons are showing

fruitful results. The private builders' and colonizers' contribution in this particular area is significant.

4. Distribution of National Capital among Population

Unfortunately in India, the distribution of capital among the population is not justified even after all the efforts of Government of India. As per the annual report 2003 of World Bank 43% population of India earn less than one Dollar per day and about 87% population's daily earning is less than two Dollars. The report of National Sample Survey, India clarifies that about 36% of country's population lives below poverty line and further 52% can be categorized as middle income segment.

As a result, the housing finance agencies of India have limited clientele of sound repayment capacity. Hence, the housing finance agencies face the problem of increasing non-procuring assets (NPA).

5. Non-Availability of Funds

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.

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 sources for the housing sector in securitization 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 the regular search of the 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.

6. Higher Cost of Acquisition of Land

The availability of land at an affordable price in adequate quantity at the right place is more important for housing finance sector. The inelastic supply of suitable land is resulted in a sharp increase in the cost of real estate. The high stamp duty payable at the time of purchase of property is also caused in increasing the cost of land significantly. Hence many potential housing finance customers face problem in owning a house.

7. Unavailability of Genuine Statistics

India is facing an acute shortage of housing units. The housing shortage was 22.9 million units in 1991, which reduced to 19.4 million units by 2001. The housing shortage

numbers are based on the 1991 census and no endeavor was made to update these statistics from the side of Government or any private body. It means that the actual position of present housing sector of India is not shown in the different reports presented by the Government or Non-Government organizations, which remains the base of various Government housing policies.

This problem affects significantly to the housing finance sector of India. The housing finance or the real estate sector is considered highly sensitive which involves huge amount of debt capital. If the decision of investment in this sector is not based on sound grounds, it may create a problem of economic crisis, which failed to understand signals of the housing finance market crashes due to absence of timely and accurate housing statistics.

(B) 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 private sector housing finance companies and commercial banks control over 85% of housing finance market of India. 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 the following headings:

1. Rapid Growth of Housing Finance Institutions

For last 15 years, 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 stock market was going down and this was an overall period of recession of financial sector.
- The Indian Government was promoting housing development activities and was willing to provide all possible aids to the financiers, developers and customers.
- Housing finance was recognized as 100% secured investment.

Although it shows the increasing importance of housing finance sector it is creating a disturbed environment in the housing finance market. The main reason of this is that most of the new entrants of housing finance sector do not have required experience, sufficient infrastructure and adequate funds. These HFCs are not sure about their policies and creating confusion among the minds of prospective home loan buyers by introducing ambiguous housing loan plans. It is sure that after a certain period all the inefficient players will be vanished from the market, but till then they will prove to be 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. Hence, 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 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 industry is concerned, there is a fierce competition and interest rate cut environment 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. Discounted home loan interest rates have been offered as low as 7.5% up to a tenure of 25 years. The housing loan amount has gone up to 110% of property to meet out the cost of legal expenses. Most of the HFCs 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 HFCs to insist on a security margin.

3. Paucity of long term fund

Housing finance is a long term investment. For a housing company to arrange a huge amount of funds for long-term investment is not easy. Hence, most of the housing finance companies generate their funds from short-term sources and deploy these funds in long-term housing loans. It creates an assets-liabilities mismatch. Therefore, it is essential to provide subsidized funding through the government for their survival.

In India, the financial condition of housing finance companies is not as sound as it should be. The Reserve Bank of India has warned these HFCs specially banks about the danger of borrowing short and lending more.

No doubt the paucity of long-term funds is a major problem of HFC's 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 forthcoming problem.

4. Traditional Marketing Network

A housing loan is inherently different from any other retail loans. 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.

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 instalment 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 has 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.

7. Industries Status for Housing

The housing sector of India does not acquire industry status in the country and is demanding for it from a long time period. This factor affects the borrowing powers

of HFCs negatively because 'Industry Status' of housing and construction activities would enable the private sector developers to avail loans from banks at lower rate of interest.

To achieve the industry status for housing sector only government's positive attitude is not sufficient but also the functioning of developers and promoters should be in an organisation systematic. First of all, developers have to start functioning in a corporate manner instead of their current fragmented fashion functioning, where builders establish different companies for different projects. A move towards consolidation and stability is necessary. Easier access to housing finance requires a great element of transparency and disclosures on the part of builders and developers. Housing finance companies should also encourage and promote the corporate style functioning in housing construction sector to boost up the housing market in India. The most of the problems of housing financing agencies are linked with the expected boom of housing finance sector, as these agencies could not prepare themselves according to the expansion of market. These problems will automatically be minimised with the passing of time. The problem of paucity of long-term funds is the real constraint for housing finance sector, which needs a serious attention. The housing finance sector should also develop united pressure to the Government of India to amend the property Acts positively and to grant an industry status to housing finance sector.

(C) Problems Faced By The Housing Finance Customers

The housing finance customers face many problems in availing the housing finance. 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. A general housing loan borrower of study area belongs to the upper or middle class, is of an average age of 30 to 50 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 standardized 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 gets confused in reaching at some 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 true sense without considering the short-term interests of the company.

2. Lack of Reliable Information Regarding Housing Finance Sector

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 cover 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

A housing loan customer does not has 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 instalment, 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 is neither good for housing finance customers nor for the future of housing finance industry.

4. Lack of Flexibility in Payment of Loan Installments

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. 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 to prove the genuineness of property purchased, income proof, mortgage documentation,

approval of local development authority, 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 attitude, the housing financing agencies remain strict on compliance of these formalities, as they do not have absolute faith on legal documentation system of the country and want to ensure themselves by all means.

This is one of the reasons due to which a common person avoids housing finance through authorized housing finance agencies and explores his personal resources .

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 HFCs 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 there are indications that it would go up in near future. 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. Most of commercial banks and co-operative societies have a margin clause in its loan schemes. 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.

II. CONCLUSION

Housing finance companies as well as housing finance customers both are facing a number of problems. Housing finance institutions are facing shortage of long term funds, cut throat competition because of mushroom

growth of housing finance institutions and cumbersome and time taking process of enforcing a mortgage in the event of default in payment of loan installment made by the borrowers. Simultaneously, housing finance customers are also facing problems because of non availability of reliable information about housing finance, fluctuating interest rates, tiresome paper work and insufficient amount of housing finance amount. 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

REFERENCES

- [1] Madhav Rao, A.G. Murthy, & Annamalai G. (1985). *Modem trend in housing in developing countries*. New Delhi, India: Oxford and IBH Publishing Company.
- [2] S. Abdul Lathif & Dr. U. Syed Aktharsha. (2015). A study on role of behavioural finance in active management and investor's emotions. *International Journal of Management*, 6(1), 97-102.
- [3] Pushan Ghose. (2018). Microfinance with reference to micro units development and refinance agency banks (MUDRA banks). *International Journal of Engineering and Management Research*, 8(1), 111-113.
- [4] Krishnamachari S M. (1980). *Mobilisation of finance for rural housing*. New Delhi, India: Yojana Publication Division.