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A Study of the Housing Finance Industry with Special Reference to the City of Chennai

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Abstract: Housing finance systems in developing countries have been the subject of considerable international agency research and lending attention in recent years. The lack of availability of finance for public sector housing programs and for the purchase of construction of housing by all income groups especially the urban middle and lower class is typically a major constraint on the ability of supply to meet demand. The housing finance system in India with special reference to Chennai is described and critically analyzed in this study: From the last decade, the Government of India has been continuously trying to strengthen the housing sector by introducing various housing loan schemes for rural and urban population. There is considerable research to be done in relation to the provision of housing in urban areas. The present study examines the developments in the housing finance in India in the early 21st and the magnitude of the problem of housing in the country and the implication of Housing Policies and evaluate the performance of selected housing finance Institutions and Banks during the period 1991-2005 in terms of various business parameters and their involvement in meeting the financial requirement of the urban housing beneficiaries and their perceptions about borrowing. Major financial institutions were chosen for the study. The sampling frame of Housing Finance Institutions and sample frame of beneficiaries(300 respondents) for each of the financial institutions are the fundamental units of the study, The data collected were analyzed with appropriate statistical tools and techniques such as simple ratios, percentage analysis, regression methods, formulation of multiple regression models, ANOA, chi-square test , T-test.. This study is an attempt to provide information will help in the formulation of realistic policies and ensure that the financial assistance reaches the larger sections of the society.

Key words: Household income, housing affordability, expenditure pattern regression methods, statistical tools

INTRODUCTION

There has been a phenomenal growth in the demand for housing in the country in recent years both in quantitative and qualitative terms due to in crease in population, expansion of industrial and commercial activities, large scale immigration into urban areas etc. According to the Habitat II estimate[1] (based on society for development studies work) new housing stock required is about 9 million units in urban areas and 7.7 million and 63 million units in rural areas for a period of 1996-2006 and about 77 million and 63 million units respectively in the longer term perspective extending upto 20212[2]. In terms of financial indicators, the investment for urban housing has been estimated at Rs 5,26170 crores and for rural housing Rs 1,72,930 crore between 1996 and 2021 for new housing and up-gradation and extension[3]. The estimated housing shortage in Tamilnadu in 1991 was 6.02 lakh units, of which 2.45 lakh units in urban areas 4.26 lakh units in rural areas[4].

While in the developed world, it is observed that most of the housing is financed through formal housing finance institutions, in developing countries like India, the extent of formal housing finance is quite limited and is estimated to be around 15% (planning commission, 1992)[5]. Most households thus depend on their savings or loans from employers Informal borrowings from friends and relatives are also often used to fiancé housing[6,7]. In recent years some public sector banks and financial institutions have promoted separate housing finance companies (in public, private and joint sectors) which specializes in providing finance to salaried class people and income tax assesses for construction/purchase of new houses and up gradation of housing stock particularly in urban areas[6].

Since the 1970,s the Indian Government had given special emphasis to the holding industry and made providing housing one of its main objectives. However, due to scarcity of finance, owning a house remained a distant dream for the average Indian: even a lifetimes earnings and investments were not enough to fund the purchase of a house. As a result, even by 2001 the country faced a shortage of 19.40 million dwelling units[7].

The housing finance industry emerged as the answer to the problem of housing by providing finance to individuals planning to own a house. Till then, banks had

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offered personal loans for properties. But these loans were restricted to bank and government (public sector) employees Private sector employees had to undergo lot of hardship to obtain housing loans. To take care of this problem and to boost investment in the housing industry, the government established the Housing Development Finance Corporation Lt., (HDFC) in 1977. The objective of HDFC was identified as "promoting home ownership by providing long-term finance to households for their housing needs[8,9]. During the 1980's and 1990's increased urbanization and the migration of the rural population to the cities resulted in heavy demand for housing. This created a great need for housing finance. The real estate boom and decreased real estate rates further aided the industry's growth[10,11]. After the liberalization of the Indian economy (a process that started in the early 1990's) a, a new class of salaried people emerged: A class that had high purchasing and borrowing power and was looking out for avenues for getting finance for purchasing and constructing houses[12,13].

However, according to the 1991 census, there was a shortage of around 22.90 million dwelling units in the country. The census also estimated that the total investment needed to fulfill this shortage would be around Rs 1510 bn[13]. Banks financial institutions and the Central and state Governments could afford to finance only 25% of this. The Government, therefore, came up with a housing policy in 1998 that sought to ensure sustainable housing development in the country by creating a facilitating environment for the same. In order to increase the inflow into the housing sector, the Government decided to encourage the participation of the private sector[14,15].

As a part of Government of India's national agenda, the "Housing for All" policy aimed at constructing two million houses every year[16]. Realizing that the increase in housing activity would lead to employment generation and improve the economic scenario, the Government announced various tax concessions to boost private sector participation.

Housing finance has come of age in India. Today over 20 major housing finance institutions have a mortgage loan portfolio of over Rs 10,000 Crores. The total flow of funds for housing from all major institutions including the insurance companies and provident funds is estimated to be more than about Rs. 29,370 crores over the period 1991-2005.

Justification of the study: To day it is nothing less than a Housing Revolution[17]. There is an immediate need for financial foreclosure, provision of easy and cheaper finance, extension of tax incentives and macro economic reforms like increasing the cash flow to housing[18]. To identify the global scenario and national theme, this study is an attempt to analyze the functions of the housing financial institutions in providing effective accessibility and financing factors to the beneficiaries in Chennai city. The study confines to a specific period namely 1991-2005. It relates to the role of the Housing financial Institutions in the field of supplying credit and meeting the requirements, there by helping the economy and the related auxiliary industries[19,20].

Objectives of the study: The specific objectives of the study are as follows

- To review the magnitude of the problem of housing, housing policies through the National housing laws and National plans in the country in general and the city of Chennai in particular
- To evaluate the performance of selected housing finance institutions and banks during the period 1991-2005 in terms of various business parameters and their involvement in meeting the financial requirement of the urban housing beneficiaries in Chennai city.
- To identify the role and method of supplying credit through the housing finance companies and the banks in meeting demand for finance to own a house and removing the obstacles of housing supply at the 3rd world and National levels.
- To analyze the cost of borrowing from housing finance institutions and banks .
- To know the perception of urban housing borrowers about the house loan provided by housing finance companies.
- To formulate and suggest policy measures so that the financial assistance reaches the larger sections of the society[21].

MATERIALS AND METHODS

The study focuses on households in Chennai,, one of the leading commercial ties in the country. It has experienced a high rate of population growth estimated at an anuual rate of 3.5% .

The study was conducted in Chennai using both primary and secondary data. HDFC Ltd, LIC housing fiancé Ltd, ICICI Bank Ltd were selected. Primary data were collected from a sample of 300 home loan borrowers through personal interview method and questionnaire was administered.

Investigations started with pilot survey of 30 households drawn randomly from the list of benefiaries of housing loans. At this stage, it was discovered that the respondents were hesitant to provide information on household finances. The questionnaire had to be revised being made simpler and questions on income made more suitable. The questionnaires were administered directly to respondents by the field investigators. A total of 300 such questionnaires were completed out of 400, giving a response rate of about 75%.

Information and data were also collected by interviewing managers of respective banks. Secondary data pertaining to housing stock housing shortage, investment on housing etc were collected from government reports, census of India etc. Whereas the data pertaining to housing finance companies were collected from the annual reports as well as office records of respective housing fiancé companies. The collected data were processed and analysed using simple statistical tools like ratios, percentages, averages. Chi-square (x2) test was used to know the relation between housing loan by way of Line of Credit (LOC) and income of borrowers. Rank correlation was used to know the perception of borrowers belonging to different income groups about the housing loan provided by housing finance companies.

Sampling frame: The sampling frame plays an important role in any major study. In the present study there are 2 different types of sampling frames. Utmost care has been taken in constructing a non-overlapping database and upto date sampling frame.

These financial institutions during the terminal year was taken by following stratified sampling. In each strata lottery method has been used to identify the exact sample unit.

Primary data: This involved in preparation of two different sets of interview schedule. The collection of data was made in person and through mail.. Pre testing of questionnaire was initially done to find out the reliability of the questionnaire. In the light of experiences gained from pretesting the questionnaire was also modified. The primary data was collected from 300 benefiaries of the selected Institutions, relating to personal demographics, financial sector, loan areas, repayment of the loan, tax incentives, effective functioning of Housing finance insitutions.

Secondary data: Secondary data was collected form various reports, manuals, journals, materials published by International Organisations, Central and State Governments. Annual reports published by LICHF, HUDCO, HDFC and other financial Institutions were also widely used. The Housing policy of the Centre and State Governments, several 5 year plan documents, National Housing Bank reports and valuable literature form different libraries and the World Wide Web was extensively used in this study[9-11].

Statistical tools applied for data analysis: The data collected were analysed with appropriate statistical tools and techniques such as simple ratios, Percentage analysis, Regression methods, formulation of multiple regression models, ANOA, chi-Square test , T-test. Usage of statistical test for testing the various hypotheses and for drawing valid inferences and construction of statistical charts and diagrams[22,23].

Hypothesis: Stemming from objectives, a series of hypotheses have been formulated which are listed as below.

- Whether housing financial institutions in the city of Chennai have removed the obstacles of housing supply without any discrimination in sanctioning loan amount.
- Whether the legislative amendments relating to housing policy have an impact with education qualifications of the respondents.
- Whether the margins applied on the housing loans by the financial institutions is reasonable with reference to the annual income and loan coverage.
- To study whether the beneficiaries favour the directly proportional interest rate or indirect proportional method of interest that satisfies the beneficiaries on the loan they have take to purchase the dwelling units.

Emphirical analysis: The basic objective of this is to highlight the sampled data in a comprehensive manner. A detailed statistical analysis of the data is attempted in subsequent sections. A sample enquiry was adopted for the collection of basic statistical data, relating to the problem under consideration. Two different approaches have been adopted for collection of data viz:

- Collection of primary data from the beneficiaries who have availed housing loan from financial Institutions.
- Collection of secondary data from financial Institutions which are lending finance for the purchase of a house/flat to the individual.

In case of primary data selction of selection of random samples from the sampling frame of individuals

Table 1: Housing financia insitutions and beneficiaries

S. No.	Housing financial institutions	No. of beneficiaries
1	HUDCO	50
2	LIC	82
3	HDFC	55
4	ICICI	25
5	BOB	18
6	Vysya Bank	24
7	Citi Bank	42
8	Birla Home Finance	05

Source: Primary data

Table:2: Socio economic profile of sampled Households Distribution of family size

S. No.	Family size	Respondents (in No.)	(1%)
1	2	54	18
2	3	168	56
3	4	62	20
4	5	1	4.7
5	6	2	.7
	Total	300	100

Source: Primary data

Table 3: Age distribution of respondents

S. No.	Age group (age in years)	Respondents (in No.)	(%)
1	Below 40	160	53.30
2	40-50	115	38.0
3	50-60	10	3.30
4	60 and above	15	5.00
5		300	100

Source: Primary data

who have availed housing loans has been adopted, keeping in view the time schedule and other constraints it was decided to collect data from 300 Beneficiaries.

In respect to the secondary data, the researcher collected data from the offoicials /executives through personal discussions, interviews. The literature supplied by the respective Housing Finance Institutions were used in this study.

A detailed statistical analysis is made and related results are presented.

The feedback from the beneficiaries and officials ?Executives are divided into 2 broad categories. they are:

- Social economic profile of sample households
- A general discussion on housing and related parameters.

From the Table 2 it is found that the average number of the family members who opt for loan is size 4 persons. It is further noted that the family of smaller size has been more responsive to avail housing loans. Very little response is shown in (Table 3) the case of larger families mostly due to economic constraints.

The educational status plays a crucial role in utilizing the Housing loan. Better educational qualification, better knowledge in utilization of housing loan. There are less numbr of respondents in below matric (6%) and matric group (4.66%). The graduate and postgraduate have shown comparatively in availing the housing loan (Table 4).

Table 4: Distribution of educational qualification of the respondents

S. No	Educational qualification	Respondents (in No.)	(%)
1	Below Matric	18	6.00
2	Matric	14	4.66
3	Under Graduate	139	46.33
4	Post Graduate	80	26.68
5	Professional	49	16.33
	Total	300	100.00

Source: Primary data

Table 5: Position of low income groups and high income groups among respondents.

S. No.	Annual income (Rs. in Lakhs)	Respondents (in No.)	(%)
1	Below 1	45	15.00
2	1-3	62	20.66
3	3-5	91	30.33
4	5-10	98	32.66
5	10 and above	4	1.35
	Total	300	100

Source: Primary data

Table 6: Distribution of plinth area

S. No.	Area (in sq feet)	Respondents (in No.)	(%)
1	Less than 400	7	2.33
2	400-700	122	40.66
3	700-1000	131	43.66
4	1000-1200	30	10.00
5	1200-2000	6	2.00
6	More than 2000	4	1.35
	Total	300	100

Source: Primary data

Income distribution: Income is the barometer for any financial activity. Mostly middle class and above middle calss have been covered under this study. The Table 5 below projets the position of low income groups and high income groups among respondents.

It is apparent that middle and higher level incomes avail more loans.

Average Plinth area of dwelling units 780 sq ft respondents. Two Categories are large ie 400-700 and 700-1000(8.32%)

It is also observed that only middle income range of family size between 3 and 4 persons prefer this area for their living.(Table 6)

Distribution of loan amount availed by the respondents: The main focus was the accessibility of the respondents to the fiancial institutions. One can see the increasing trend and direct proportional ratio to loan amount. Table 7 explains % in the increasing order .

The average loan availed is Rs 4.6 Lakhs. In majority of the cases the spouse income, also supports the households.

Table 7: Percentage in the increasing order

S. No.	Loan amount (Rs in Lakhs)	Respondents (in No.)	(%)
1	Less than 1	17	6
2	1-2	36	12
3	2-3	15	5
4	3-4	23	8
5	4-5	43	14
6	More than 5	166	55
	Total	300	100

Source: Primary data

Table 8: Distribution of housing finance institutions

S. No.	Name of the housing fiancial institution	Respondents (in No.)	(%)
1	HUDCO Niwas	49	16.3
2	LICHF	81	27.0
3	HDFC	53	17.7
4	BOBHF	18	6.0
5	Vysya Bank Housing finance	30	10.0
6	CitiBank	44	14.7
7	Birla Home Finance(BHF)	25	8.3
	Total	300	100

Source: Primary data

A general discussion on housing and related parameters: The discussion regarding the parameter of knowledge of housing policy, attitude of the officials , selectiono of the fiancial institution is given below.

This Parameter has a close association with Educational Qualifications of respondents. To the question put forth during survey, a number of housing policies of India 98 and the related benefits.

The Table shows the association of educated respondents and their knowledge of the housing policy of India 1998.

Distribution of the Financial Institutions based on which the researcher has interviewed the 300 Beneficiaries

The Major Sampled Financial Institutions i.e HUDCO,LICHFL and HDFC,ICICI Home Finance account for about 67% and others 33%.

The researcher has studied the loan amount availed and cross tabulated the sources of income of the respondents. This indicates the relationship between the two. Shown in Table 9.

Table 9: Distribution of loan amount and annual income for the purchase of house/Flat

S. No.	Sources of annual incoeme (Rs. in Lakhs)	Amount sanctioned as loan for purchase of house/flat (Rs. in Lakhs)						Total respondent	(%)
		<1	1-2	2-3	3-4	4-5	>5		
1	Less than 1								
2	1-3	7	11	7	6	3	11	45	15
3	3-5	3	14	5	7	14	19	62	20.67
4	5-10	1	2	2	6	10	70	91	30.33
5	More than 10	6	7	1	3	16	65	98	32.67
		-	2	-	1	-	1	4	1.33
		17	36	15	23	43	166	300	100

Source: Primary data

Table 10: Distribution of the processing /administration fees paid by the housing fianancial institutions in India

S. No.	Amount sanctioned for purchase of house/flat (Rs. in Lakhs)	Processing/administration fees paid by repsondents			Total	(%)
		Upto Rs 1000	Between 1000-5000	Between 5001-10000		
1	Less than 1	7	8	2	17	5.77
2	1-2	1	17	6	36	12.00
3	2-3	3	11	1	15	5
4	3-4	2	1	7	23	7.67
5	4-5	-	32	11	3	1.33
6	More than 5	2	50	14	166	55.33
					300	100

Source: Primary data

Table 11: Distribution of loan amount sanctioned and the sources of income of the respondents

S. No.	Annual income (Rs. in Lakhs)	Amount sanctioned as Loan for purchase of house/flat (Rs. in Lakhs) Total						Respondent	(%)
		<1	1-2	2-3	3-4	4-5	>5		
1	Less than 1	7	11	7	6	3	11	45	15
2	1-3	3	14	5	7	14	19	62	20.67
3	3-5	1	2	2	6	10	70	91	30.33
4	5-10	6	7	1	3	16	65	98	32.67
5	More than 10	-	2	-	1	-	1	4	1.33
		17	36	15	23	43	166	300	100

Source: Primary data

The Table 10 indicates that respondents in lower income have lower loan amount comparedto higher income group. The higher income group category of RS 5-10 Lakhs have availed a maxium loan (32.6%), which is direct proportion to two parameters namely' Income and Source."

The Table 11 indicates respondents in lower income has lower Loan amounts sanctioned compared to higher income groups.The availing of loan is highest (32.67%) in the Income categories of Rs 5-10 Lakhs, which proves the direct proportion to the two parameter namely "Income and Source".

Table 12: Distribution of customer preference for interest rates

Sl.No	Annual income (Rs in Lakhs)	Resonability of Interest rate	
		Low	High
1	Less than 1	19	26
2	1-3	19	43
3	3-5	22	69
4	5-10	67	31
5	More than 10	2	2
	Total	129(43%)	171(57%)

Source: Primary data

Table 13: Distribution of customer preference for interest rates

S. No.	Annual income (Rs. in Lakhs)	Respondents preference (in No.)			
		Fixed rate (EMI)		Floating rate (GMI)	
		Nos	%	Nos	%
1	Less than 1	31	11.44	14	48.28
2	1-3	50	18.45	12	41.37
3	3-5	90	33.21	1	3.45
4	5-10	96	35.42	2	6.90
5	More than 10	4	1.48	-	-
	Total	271	100.00		

Source: Primary data

Table 14:Distribution of the knowledge of equated monthly instalments

S. No.	Knowledge of EMI		No knowledge of EMI	
	Respondents in No.	%	Respondents in No.	%
1	256	85.33	44	14.67

Source: Primary data

It is evident that from Table 12 that majority of respondents are unhappy with the interest rates charged by housing finance institutions. They have also expressed their burden inspite of tax benefits offered by Governemnt. When asked for the suggestions, a sizable number of respondents have expressed that rate of interest of 5% -6% 0n the loan amount would be reasonable.

From sampled data 271 respondents support fixed rate and this amounts to 90.33% of total responses. (Table 13) Reasons identified as:

- Fear of uncertainity in the minds of the borrowers
- Anxiety to maintain a fixed family expenditure budget.
- To insure against possible hike in interes rates

The Table 14 positively portrays that the respondents have strong hold on the method of repaying the loan amount. They feel that steady repayment will not be a burden

Statistical analysis: The following tools were used in the study.

- ANOVA
- Multiple regression models
- Chi-square test
- Students t-test
- Ratio and regression methods of estimation

H0: All the population are identical as far as housing loan is concerned
H1: Atleast one pair of the population does not have the same median

Table 15: Where K is independent samples from K population its sizes are n1,n2…nK calculated H=36
Summary of finding

The above Table 15 reveals that the housing financial institutions have removed the obstacles to the benefiaries in respect of sanctioning of loan amount and thereby making them accessible and affordable. Findings:

Table 15: Summary of fiding

1.	Name of the test	Results	Inference
1	ANOVA	H = 36 X2 0 = 36.00 X2e = 12.59 for 6 D.F at 5% level of significance	There exists differences in financial Institutions sanctioning loans to different cateogeries of beneficiaries
2	Multiple regression	R2 values range from 0.124 to 0.285	The models fitted are satisfied
3	Chi-square	To study the association between annual income of the respondents and the respondents satisfaction regarding the purchase of the dwelling unit X20 = 11.295 X2e = 9.49 for 5 D.F at 5% level of significance	S11.295>9.49 it is inferred that there is association between annual income of the respondents and their satisfaction regarding the purchase of dwelling units.

Source: Primary data

RESULTS AND DISCUSSION

- Based on Kruskal-wallis test it was found that there is significant difference between the financial institutions with respect to loan amount sanctioned to the benefiaries. Hence, to some extent there exists a discriminiation with respect to sanctioning of housing loans.
- Multiple regression models constructed establishes relationships between a dependent and a host of independent variables.In all the models constructed we have considered the loan amount sanctioned for the benefiaries as the dependent variable. The associated independent variable are annual income, age, knowledge of housing policies, rate of interest, processing fee etc. The models constructed are satisfactory
- On the basis of other statistical tools like chi square and students t test it was found there exists some association between the Education qualification of the respondents and Knowledge of Housing policy of India.
- Annual income and loan coverage
- No significant differences exist between financial institutions in respect of loan sanctioned to beneficiaries
- From the analysis it is also revealed that Housing financial Institutions have removed obstacles in assessing loan thereby making an accessible scenario, though significant discrimination exists with respect to affordable aspects. This relates to the general housing policy by the Government of India in relaxing certain regulations and allowing several private players in the field, which has created a competitive environment.
- The liberalization and the active entry of commercial banks into housing finance market, deregulation of interest rate etc increased the competition and affected the volume of housing companies in the recent years. HDFC Ltd the biggest housing fiancé company in the country has maintained a steady consistent growth in its loan sanctions and disbursements throughout the study period.
- The medium sized housing finance companies like LIC Housing finance, ICICI Home Finance have experienced high growth during the initial years but increasing competition n in the recent years reversed their growth in loan sanction and disbursement. SBI Home finance has experienced very high growth in the loan sanction up to 1994-95 but thereafter its loan sanctions/disbursements have continuously declined witnessing a negative growth. This is mainly due to mounting defaults from bulk loan segment and increasing non performing assets.
- An interesting findings of the study is that 53% of total loans on an average is sanctioned in the slab of Rs 2-5 lakhs followed by the slab of Rs 1-2 lakhs. This indicates that mostly the middle and high income group of people seek loan from housing fiancé institutions for construction/Purchase of house.
- Out of the total individual loans sanctioned by selected housing finance companies the maximum of 80% was for construction/Purchse of house/flat, 15% was towards extension of house and 5% was towards up-gradation.
- Among the selected housing finance corporations, HDFC Ltd and LIC Housing Finance Ltd impose a prepayment of loan. With the sharp fill in interest rates prepayments have increased from 5% of the total loan portfolio earlier to 8-10% in recent years. This has come as a set back for many average sized housing fiancé companies as they midway lose a good loan account giving an interest of 15-17%.
- Across the different income groups the loan from housing finance company in the total cost of house has formed the highest of 59.9% for high income group borrowers (family income below Rs 10,000 per month)
- Some of the dominant factors which influenced the decision of prospective borrowers to go in for housing loan from housing finance institutions were discussed with the sample borrowers. It found that rate of interest, ease of securing loan, speed of service, liquidity, location, advertisement, courtesy etc are the most dominant and critical factors which influenced the decision of sample borrowers to get loan from housing finance companies. For low and lower middle income group of borrowers rate of interest was the most dominant and highest determinant of their choice of housing finance company whereas for upper middle and high income groups, ease of securing loan which ranked first, was the most important determinant of their choice of housing finance company. Rank correlation is attempted to analyze the closeness of factors influencing the decision of borrowers belonging to different income groups. The resulting rank correlation coefficient is 0.85 which implies that there is 85% chance that any factor affecting low and lower middle income groups choice will also affect upper m idle and high income groups choice of housing finance company.

CONCLUSION

From the analysis, the researcher comes to the conclusion that all home loan borrowers have more or less the same perception about the housing finance company and the loan provided by them[24]. In this intense competition housing finance institution are now operating on squeezed margins have to pay due attention to these factors in their order of importance to expand their volume of business[25]. The institutions that are geared to meet the expectations of customers only will survive[26]. Institutional philosophies, traditions, priorities and standards will help while understanding the changes in the perception of the customers and will enable strategic planning for improved market share.

Scope for further research:

- Research can be conducted on the joint venture possibility of 'Public –Private sector in both provision of housing and housing fiancé for Lower income group in urban centres
- Based on the experience gained in the present study it is suggested that research could also be initiated on areas like Housing finance and viability of housing investments with respect to free capital Markets and competitive rates of savings.
- Another area that research could be initiated is "Housing finance delivery systems and cost recoveries.
- Research can also be conducted with respect to "Township settlements as satellites to the city of Chennai with foreign direct investments as a part of infra structure development.

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