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HOUSING FINANCE: STUDY WITH REFERENCE TO KADAPA CORPORATION

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ABSTRACT

Housing is one of the basic needs of society. It is the place which witnesses all the important events in the life of a human being. Indecent, unclean and inhuman living conditions seriously affect and endanger both the physical and mental health of individuals. For the progress of nation, it is essential that a confirming habitat in proper surroundings with minimum basic needs like drinking water and sewage are made available to every citizen. The purpose of a housing finance system is to provide the funds which home-buyers need to purchase their homes. This is a simple objective, and the number of ways in which it can be achieved is limited. Notwithstanding this basic simplicity, in a number of countries, largely as a result of government action, very complicated housing finance systems have been developed. However, the essential feature of any system, that is, the ability to channel the funds of investors to those purchasing their homes, must remain. The present paper deals with various problems faced by the sample borrowers in availing loans from the Housing Finance Institutions in

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sanctioning the loans from the borrowers. And opinions to overcome the problems faced by them are also highlighted.

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INTRODUCTION

Next to food and clothing, shelter is an essential ingredient of human life. House is not only a place of dwelling but also an important social need of a family. It is observed that housing and quality of living are intimately related. Good housing also increases productivity of people. The life styles of people including their culture are also reflected in the type of houses the people dwell.

Buildings or structures that individuals and their family may live in that meet certain federal regulations. Different housing situations vary for individuals and may depend on age, family, and geographic location. For example, a recent university graduate in an urban environment in the US may live in a rented apartment whereas a middle-aged entrepreneur may live in a house with or without a mortgage. Housing contributes significantly in perpetuating human relationship and promotes the ware of the members of family in particular and society in general. It plays a crucial role in the

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economic developments of a nation, both as an end and as means. Housing problem in India came to the fore in the pre-independence days and the intensity of the problem had gradually increased there after.

OBJECTIVES OF THE STUDY

This paper analyse the problems and opinions of the sample borrowers availing housing finance from the Housing Finance Institutions(HFIs).

RESEARCH METHODOLOGY

The analysis is designed as an empirical one based on the survey method. The simple random sampling technique is used for data collection and analysis. In Kadapa Corporation, YSR District of Andhra Pradesh, two Housing Finance Institutions(HFIs) i.e., SBI and LIC have been chosen for analyzing the problems and opinions of the sample borrowers availing housing finance. About 100 sample borrowers from these HFIs have been randomly selected for collecting the primary data. Structured questionnaire have been designed to collect the data. The data collected through the questionnaire from primary sources have been processed and analysed by employing appropriate statistical tool like percentages.

HOUSING FINANCE IN INDIA

Housing finance brings together complex and multi-sector issues that are driven by constantly changing local features, such as a country's legal environment or culture, economic makeup, regulatory environment, or political system" In addition The purpose of a housing finance system is to provide the funds which home-buyers need to purchase their homes. This is a simple objective, and the number of ways in which it

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can be achieved is limited. Notwithstanding this basic simplicity, in a number of countries, largely as a result of government action, very complicated housing finance systems have been developed. However, the essential feature of any system, that is, the ability to channel the funds of investors to those purchasing their homes, must remain. Housing finance covers financing at all stages in the development of housing from purchasing of plot to construction of house and installation of on –site infrastructure. Housing finance in India was passive for a long time and the neglect of government has killed the initiative in the housing finance sector. As a result, there has been a shortage of housing units in the country. As a another step towards establishing an institutional structure in the housing finance sector in the country. The **Life Insurance Corporation Housing Finance Limited** (LIC) as well as General Insurance Corporation of India (GIC) support housing activity both directly and indirectly. Life Insurance Corporation Housing Finance Limited (LICHFL) is one of the largest housing finance companies in India having one of the widest marketing networks with more than 2000 branches and 65 area offices of LIC and also access to more than half a million agents in the country. It was promoted as Life Insurance Corporation on 19th June 1989 and a public issue was made in 1994. It provides house loans at an attractive rates of interest. LICHFL facilitates home loans to Resident Indian as well as Non-Resident Indian (NRI) along with providing various facilities to their esteemed customers like Green Channel, step-up EMI's as well as special facility to NRI's in the Gulf region. LICHFL, Resident Indians and NRI's can avail of home loans for several purposes, like purchase, construction, repairing and renovation or for purchasing a plot. Pensioners can also avail the benefits of LIC Home Loans. LIC Griha Prakash and Griha Laxmi loans are for purchase and construction of properties and the maximum loan offered can go up to Rs 1 crore.

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Commercial Banks involvement in housing finance is relatively of recent origin. In April 1989 the RBI advised the commercial banks to allocate a minimum of 1.5 percent of their incremental deposits for the purpose of investing the housing. Since the financial year 1999-2000 the minimum housing finance allocation has been raised to 3 percent of their incremental deposits as on the last reporting. Commercial banks are provided direct loans and indirect loans. The RBI has permitted the banks to treat direct housing loans upto Rs.5 lakhs in all areas as their priority sector advances. This calling has been raised to 10 lakhs in urban and metropolitan areas with effect from October 1999. All indirect housing loans extended by banks to housing intermediary agencies against loans sanctioned by them reckoned as part of housing finance allocation with effect from 1999.

PROBLEMS & OPINIONS OF HOUSING FINANCE

Sample borrowers of residential house builders are facing number of problems. The problems of the sample borrowers include preparation of documents, delay of sanction, surety and security, rules and regulations, insufficient loan amount and opinions of the sample borrowers.

Age-Wise Classification

The house building activity is taken up by different individuals at different stages of life. So age forms an important aspect that is to be taken into consideration while sanctioning house loans. Normally, in a developing country like India, people start constructing their own houses after 30 years of age as they need sufficient time to save from their earlier earning. Table 1 shows the age-wise classification of sample borrowers.

Table.1

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HFIs	AGE-WISE CLASSIFICATION OF SAMPLE BORROWERS			
	30-40	40-50	50-60	Total
SBI	30 (60.00)	17 (34.00)	3 (6.00)	50 (100.0)
LIC	28 (56.00)	17 (34.00)	5 (10.00)	50 (100.0)
Total	58 (58.00)	34 (34.00)	8 (8.00)	100 (100.0)

Note : Figures in the parentheses indicate percentage to total

Source: Field Survey

Out of the total number of sample borrowers, the highest of 58 borrowers, constituting 58.00 per cent fall under the early age group of 30-40 years. About 8.00 per cent of housing loans are sanctioned to the borrowers with 50-60 years age. The banks perceive that in this age group people are about to retire, and their repaying capacity would come down. The sample borrowers belonging to the age group of 30-40 years of all sample bank branches are supposed to have a similar share in the total sample between 6.00 per cent and 60.0 per cent. For the age group of 40-50 years, it is observed that the percentage of loan sanctioning is same in the select HFIs. It ranges between 34.00 per cent and 34.00 per cent in SBI and LIC respectively. For the age group of 50 to 60 years, it is observed that percentage of loan sanction is as low as 6 percent to 10 percent . It is observed that in the select HFIs the maximum percentage of loans are sanctioned for the sample borrowers belonging to the age group of 30-40 years, as the sample borrowers of this age group posses repayment ability when compared with other age group.

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Monthly Income-wise Classification

At the time of sanctioning the house loans the HFIs must see monthly income of the sample borrowers. To apply for house loan, the borrowers must have regular monthly income.

Table 2

HFIs	MONTHLY INCOME-WISE CLASSIFICATION OF THE SAMPLE BORROWERS			
	(In number)			(In
	Upto 20000	20000-30000	Above30000	Total
SBI	10 (20.00)	22 (44.00)	18 (36.00)	50 (100.0)
LIC	9 (18.00)	20 (40.00)	21 (42.00)	50 (100.0)
Total	19 (19.00)	42 (42.00)	39 (39.00)	100 (100.0)

Note : Figures in the parentheses indicate percentage to total

Source : Field survey

It is evident that sample banks have given high priority while sanctioning the loans to the sample borrowers who fall under the monthly income category of Rs.20000-

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30000 by giving 42.00 per cent of total loans to this group, followed by above Rs.30000 and upto Rs.20000 with 39.0 per cent and 19.00 per cent respectively.

Individually, Select HFIs followed the same pattern. Highest percentage of loans have gone to the income groups of Rs.20000-30000. SBI and LIC have given more the loans, i.e., 44.00 per cent and 40.00 per cent to this category. All the sample banks have given lesser share of loans to the respondents fall under the group upto Rs.20000. It can be inferred that fear of non-recovery of loans from low income group might have been the reason for less importance to low income group and high income group might not have approached the bank for house loans.

Problem of Documentation

Documentation is an important factor at the time of applying for house loan in sample banks. The applicants have to submit the loan application along with required documents to select banks. The details of documents to be submitted for housing finance are listed as under:

- Duly filled in application , Proof of employment and salary certificate for self , spouse (if employed) / Balance sheet for last 3 years in the case of professionals, businessmen and self employed persons;
- Income Tax/Wealth Tax returns for the past 3 years, Proof of other sources of income like rent, interest on investment, if any;
- Copy of Agreement of Sale/Sale Deed of the property ,Demand Draft/Chalan towards payment of (1) processing fees (2) legal charges and (3) administration;
- Duly filled in guarantor forms and Estimated of the proposed construction certified by the qualified engineer/authorities;
- No objection certificate from the revenue authorities and LIC policy certificate

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on hand, NIL Encumbrances Certificate for 13 years and approved building plan;

- Parent documents for 30 years , Title deed and Inspection report from qualified civil engineer/architect;

All sample banks insist on similar type of documents. Out of 100 sample borrowers from all sample banks, 43 sample borrowers feel difficulty in the preparation of document for sanction of the housing loans.

Delay in Sanction of Loans

Owing to delay in the sanction of loans, the select borrowers experienced the problems. In general, select banks after taking borrowers loan applications they will sanction the loans in different time lags. Data with regard to these lags involved in select banks are portrayed in Table 3.

Table 3

DISTRIBUTION OF SAMPLE BORROWERS ACCORDING TO TIME INVOLVEMENT IN THE SANCTION OF HOUSE LOAN				
Sl. No.	Time taken in sanctioning loans (in days)	No. of Borrowers		
		SBI	LIC	Total
1	Within 10	15 (30.00)	18 (36.00)	33 (33.00)
2	10-20	12 (24.00)	14 (28.00)	26 (26.00)
3	20-30	13 (26.00)	12 (24.00)	25 (25.00)
5	Above 30	10	06	16

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		(20.00)	(12.00)	(16.00)
	Total	50	50	100
		(100.0)	(100.0)	(100.0)

Note : Figures in the parentheses indicate percentages to the total

Source: Field Survey

It is evident that about 33.00 per cent of total sample borrowers are sanctioned loans in upto 10 days; 26.00 per cent of in 26 days; 25.00 per cent in 20-30 days; 16.00 per cent in above 30 days of application date. There is similar variation of delay in sanctioning loans from HFIs under study. About 5.00 per cent of the sample borrowers in LIC are receiving loans in more than 30 days. The maximum number of sample borrowers have taken loans for housing construction in upto days from select HFIs. Further, it is significant to note that within the sample HFIs, SBI sanctions loans more quickly.

Problem of Surety and Security

Another great hurdle that the sample borrowers faced at the times of receiving the loans from select banks is adhering to surety and security conditions. For analysis, surety and security is classified into three aspects namely, (i) Title of the property (ii) Guarantee

Table 4

DISTRIBUTION OF SAMPLE BORROWERS FACING SURITY AND SECURITY PROBLEM				
Sl. No.	Problem of borrower	No. of borrowers		
		SBI	LIC	Total
1	Title of the property	18	20	38

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		(36.00)	(40.00)	(38.00)
2	Guarantee	17 (34.00)	18 (36.00)	35 (35.00)
4	Total 1+ 2+ 3	35 (70.00)	38 (76.00)	73 (73.00)
5	Borrowers not facing the problem	15 (30.00)	12 (24.00)	27 (27.00)
Total sample 4+ 5		50 (100.0)	50 (100.0)	100 (100.0)

Note :1. Figures in the parentheses indicate percentages to the total.

Source : Field Survey

Table 4 focuses on the problems regarding surety and security in the select commercial banks. It is clear that out of 100 sample borrowers from select HFIs 73 (73.00 per cent) experienced the problem and 27 not faced the problem of surety and security. The select HFIs, the problem of surety and security is high in LIC, followed by SBI. In the select HFIs, problem of guarantee is more pronounced with 35.00 per cent when compared to other surety problems such as title of the property. Problem of title of the property is also more in LIC when compared to other banks. The reason is that LIC demand their customers to arrange guarantee for 5 to 20 years. It is becoming hurdle on the part of the customers to arrange that much of guarantee to get the house loan.

Rules and Regulations

Usually banks follow some rules and regulations to grant housing finance. These rules and regulations do not help to finance the total cost of the plot, repayment schedules, not considering the future/other income. Table 5 contains the data relating to

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the problems faced by the sample borrowers regarding the rules and regulations of sample banks.

Table 5

DISTRIBUTION OF SAMPLE BORROWERS FACING THE PROBLEMS OF RULES AND REGULATIONS				
Sl. No.	Problem of borrower	No. of Borrowers		
		SB	LIC	Total
1	Total cost of plot not financed	18 (36.00)	16 (32.00)	34 (34.00)
2	Repayment Schedule	15 (30.00)	15 (30.00)	30 (30.00)
3	Non-consideration future income	12 (24.00)	12 (24.00)	24 (24.00)
6	Total 1+2+3+4+5	45 (90.00)	43 (86.00)	88 (88.00)
7	Borrowing not facing the problem	05 (10.00)	07 (14.00)	12 (12.00)
Total sample 4+5		50 (100.0)	50 (100.0)	100 (100.0)

Note :1. Figures in the parentheses indicate percentages to the total.

Source: Field Survey

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It is evident that among 100 sample borrowers, 12.00 per cent of borrowers in the select HFIs do not suffer with the problem of rules and regulations. Out of 88 borrowers, who encountered with this problem in the sample HFIs, 45 borrowers are from SBI and 43 borrowers from LIC. It means that the intensity of this problem is more or less equal among the borrowers of SBI and LIC. HFIs believe that recovery of loan would be perfect from the borrowers those who could acquire plot on their own. HFIs fix the repayment schedule by considering the monthly income, period of service and family size.

Insufficient Loan Amount

Insufficient loan amount is another problem being faced by the sample borrowers from the HFIs. This problem is different from borrower to borrower and from HFIs to HFIs.

Table 7 shows the details of the distribution of sample borrowers facing the problem of insufficient loan amount. It is evident that out of the total sample borrowers of all select HFIs only 26.00 per cent of borrowers faced this problem. About 26.00 per cent of borrowers who suffered with insufficient loan amount are mainly due to the reason of 'future and other income not considering', followed by low estimated cost. The select Housing Finance Institutions, more number of borrowers from SBI has suffered with insufficient loan amount due to the reasons when compared to other banks.

Table 7

DISTRIBUTION OF SAMPLE BORROWERS FACING THE PROBLEM OF INSUFFICIENT LOAN AMOUNT				
Sl. No.	Reasons	No. of Borrowers		
		SBI	LIC	Total

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1	Below Estimated cost	06 (12.00)	07 (14.00)	13 (13.00)
2	Future and other income not considering	15 (30.00)	11 (22.00)	26 (26.00)
4	Total 1+2+3	21 (42.00)	18 (36.00)	39 (39.00)
5	Borrowing not facing the problem	29 (58.00)	32 (64.00)	61 (61.00)
Total sample 4+5		50 (100.0)	50 (100.0)	100 (100.0)

Note : Figures in the parentheses indicate percentages to the total

Source: Field survey

OPINIONS OF THE SAMPLE BORROWER

The sample borrowers have experienced with certain problems at the time of taking loan from select Housing Finance Institutions. Regarding the problems of the sample borrowers, their opinions were elicited to overcome these problems. The opinions of the sample borrowers are given in the Table 8

Table 8

OPINION OF THE SAMPLE BORROWERS TO OVERCOME THE PROBLEMS				
Sl No.	Opinion of the borrowers	Borrowers		
		SBI	LIC	Total

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1	The purchase cost of the plot should be financed by sample banks	15 (30.00)	12 (24.00)	27 (27.00)
2	Salary deduction	10 (20.00)	14 (28.00)	24 (24.00)
3	Removing the Insurance facility	8 (16.00)	11 (22.00)	19 (19.00)
4	Waiving off penalty to prepayment	10 (20.00)	05 (10.00)	15 (15.00)
5	Encourage the non-salaried class	7 (14.00)	08 (16.00)	15 (15.00)
Total sample		50 (100.0)	50 (100.0)	100 (100.0)

Note :1. Figures in the parentheses indicate percentages to total

2. The most significant opinion of the borrower is considered and included in the table.

Source: Field survey

Out of the total 100 sample borrowers, 27 sample borrowers representing 27.00 per cent opined in favour of banks providing sufficient loan to purchase house plots, 24 sample borrowers representing 24.00 per cent have expressed that the installment should be stable as far as possible. 19 sample borrowers representing 19.00 per cent viewed that the banks should not change insurance premium at a time. About 15 sample borrowers representing 15.00 per cent opined that banks while 15 sample

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borrowers representing 15.00 per cent suggested that the encouragement should be made to the non-salaried categories by the select Housing Finance Institutions should not collect pre-payment charges. It may be said that the problems of borrowers of housing loans differ from one commercial bank to other

CONCLUSION

Of all the problems faced by the borrowers, the major problem is rules and regulations followed by surety and security. Other problems such as insufficient loan amount, delay in processing and preparation of documents are experienced by lesser number of borrowers. In the case of period of loan sanctioned, only a few applications took more than 30 days while more applicants were sanctioned within 10 days. Most of the borrowers opined that instead of deducting in one go (lump sum). Insurance cost can be collected in installments. Simultaneously, it would be reasonable to cut certain percentage month wise. Majority of the sample borrowers opined that the cost of the plot needs to be considered by HFIsS for financing. Other views expressed by them in order of weightage include introducing salary deduction facility for repayment of house loan installments, removing insurance cost, waiving of prepayment charges and encouraging the non-salaried class groups.

SUGGESTION

- The HFIs shall guide the borrowers in the preparation of the estimated cost plans to get quick sanction of housing loans from the banks.
- Housing Finance Institutions should reduce time to process the documentation and should try to sanction the loan within 15 to 20 days from the date of application for loan.
- The Housing Finance Institutions should minimize the processing and administrating charges to improve the clientele.

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- Inordinate delays in sanctioning of loans shall be avoided. Even in the case of non-salaried income loanees, the cumbersome procedure prevalent shall be simplified while sanctioning the loans.
- The loan amount shall be estimated based on the latest prices of the inputs to make it more adequate for the purpose of sanctioning loan.
- Processing of verification and documentation should be made simple. Specifically, the number of documents to be submitted for house loan shall be minimized.
- While recovering the loan amount from the beneficiaries, banks should avail the facility of deducting the dues from the salary at source to save time and expenditure of the borrowers and banks.
- Insurance cost should not be deducted in one lumpsum. It should be better if it is added to the monthly installments.
- Pre-settlement of housing loans should be allowed with nominal charges. Further, the borrower should be encouraged to repay the housing loans ahead of their repayment schedule.
- Competition shall be created among the branches to excel in recovery and best performing branches may be rewarded monetarily. At individual employee level also, performance linked incentives system shall be implemented to motivate employees to step-up monitoring and recovery.
- System for awarding of trophy/ merit certificates shall be introduced for better recovery performance in public sector commercial banks.
- Government should provide guarantee on customer's credit, especially in the case of low income groups.

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