

Housing Finance in India : A Comparative Study of Public and Private Sector Banks

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Abstract

Housing or shelter is the basic need of human being. This is accepted by the civilized society. Housing is an enigma to the developing countries; it is simultaneously the hardest problem to solve the social housing schemes. Though shelter was enshrined as a fundamental right in the constitution, housing did not get the attention it deserved. In the light of bank reforms and government encouraged banking sectors to identify housing finance sector and its importance in lending. After 1990s all public sector banks were struggling with NPA problem. The housing shortage is increasing day by day as a proportion to the massive increase in population. Today, there are more than 350 housing finance companies registered with the registrar of companies of these 29 have been approved by NHB for financial assistance. Housing finance sector is fastest growing segment of the retail financing sector with a slew of tax breaks and sharp cut in cost of owning housing, buying a house is easier. The agencies of public sector housing finance companies, Private sector housing companies and banks are competitors in housing finance market. Every citizen of the country dreams of having his own house. It is the bounden duty of the government to provide house to the houseless. Considering the paramount importance of housing, government no doubt considered.

1. INTRODUCTION

National agenda identified housing as priority area, from the first five year plan itself. The village housing scheme for providing assurance to villages for construction an improvement of houses and sites to land-less agricultural work was introduced in 1957, during the second plan. The 7th five year plan saw a major shift with respect state government's involvement in housing activity. Both the central and state government involvement in housing problem limited itself to construction of houses for government employees and the social housing schemes. In nineties it was suggested that the major responsibility for housing problem should be left to the private sector and governments started encouraging market based solution to housing problem. Everyone, rich or poor, whether in rural areas or urban areas, needs a house to protect his life and property and also to promote his well-being. Houses do a great deal more than

housing the people. Every human being aspires to have his own house to live in. After food and clothing, housing is the third most important human requirement.

Housing does not mean the construction of a shelter only, a shelter to protect way from the inclemencies of weather. They channel human relationship and are an integral part of the society. A house is not an isolated structure but forms part of the neighborhood and the total community. Housing in its wide sense comprehends a shelter designed to fit in with his social and cultural wants and located in proper environment supported by physical and social infrastructure. On an average a person spends almost two-thirds of his life in a house which is his sanctuary in his old age. Adequate housing is therefore a fundamental need of human beings and an essential pre-requisite for physical, intellectual and mental development. Blessed are those who live in their own house and fortunate are those who have the money to

buy one. But all are not privileged to buy a house of their own. For many such less privileged, buying a house has become possible in modern times through housing loans.

Though shelter was enshrined as a fundamental right in the constitution, housing did not get the attention it reserved. This might be due to the fact that during those days nobody expected the problem of housing to assume the present massive proportions. Proper housing, even at a lower scale, has never kept pace with the minimum requirements of the people as human desires and wants are never satisfied. The housing backlog has been compounded by the high rate of population growth. Inadequate housing facilities have led to the rapid growth of slums and unauthorized settlements, poor quality of services, housing land prices and increasing costs of construction. In rural areas the situation is even more alarming. The central and state government, public undertakings such as banks, housing development agencies, companies, private undertakings and many other institutes have been trying to tackle the problem but their efforts do not much even the fringe of the problem.

In the light of bank reforms and government encouraged banking sectors to identify housing finance sector and its importance in lending. After 1990s all public sector banks were struggling with NPA problem. To overcome the ongoing problem, housing finance sector is an important way because of the less weighted risk which is only 25% from the existing level of 100% due to marginal risk in housing finance against mortgaged home, most of the public sector banks, private housing company and public sector housing finance companies jumped to housing finance market. Agencies in housing finance market.

2. REVIEW OF LITERATURE

The paper has carried out a survey of literature review relating to Marketing of Housing Finance – A Comparative Study of Housing Finance in India. (A Special Reference to Public and Private Sector Bank) An attempt has been made to summarize the important studies keeping the relevance of the present study.

VibhaBatra (2009) analyzed the growth trends in the domestic mortgage market, the financial

performance of Housing Finance Companies (HFCs) over financial year 2009 and the current financial year. A significant increase followed by a decrease in interest rates, slowdown in economic activity, correction in property prices in most geographies, and the introduction of “8% home loan schemes” have added interest-ing dimensions to the Indian mortgage finance market in the recent past.

GovindaRao, (2011) says that Mortgage financing markets play an important role in stimulating affordable housing markets and improving housing quality in many countries. Unfortunately, they are often less developed in India. This lack of development often translates into lower homeownership rates or lower housing quality. Most stem from the central dilemma that the resources are always too limited and housing development heavily depend on the financial institutions such as banks, credit corporations and development banks for the supply of finance to meet their daily financial needs.

Dr. Ashok K.M, (2011) Housing scarcity and lack of decent housing is an international phenomenon. About 25% of the world’s population does not have sufficient shelter and live in sub-human conditions. The shortage of housing in India persists since independence. According to the planning commission the shortage of dwelling units are expected to reach 41 million. This resulted due to the growth of population shift in demographic pattern and rising income of the middle class vis-à-vis the availability stock. In order to rectify this mismatch between demand and supply the government encouraged the housing finance institution and banks (public and private) for bridging the resource gap.

Jasmine Tiwana and Jagpal Singh (2012)

In their paper it is discussed about the regulatory aspects pertaining to housing finance companies in the light of various directions and guidelines issued by National Housing Bank National Housing Bank (NHB) an apex level institution wholly owned by the Reserve Bank of India was set up in 1988 under National Housing Bank Act 1987. It promotes housing finance institutions, issues directions and provides finance and other support to the institutions.

S.Rajalakshmi, G.V, (2013) have found that one of the most important benefits of taking a home loan is the interest rate that is allowed on the home loan. Fixed and variable interest rate options are also available for home loans. Many financiers also offer home improvement loans at the same interest rate as they offer the home loans. The prospective homeowner must look for a loan substantial in size and so structured that he can repay it over a longer period of time, in many cases almost one's entire working life. Loan is offered to a borrower to purchase or build a new house on the basis of his/her eligibility and the banks' lending rules.

Dr. P.S. Ravindra (2013) has evaluated the operational performance of LIC Housing finance Limited and HDFC. Top housing finance companies such as HDFC, LIC Housing Finance witnessed loan book growth of 22-37 per cent during the year ended March 2012, thereby increasing their market share. It was concluded that the success of the LICHFL and HDFC in the housing finance industry is in its marketing network. They have more number of marketing personnel than the regular office staff. Even though, these two housing agencies are good in sanctioning loan disbursement and delivery of service to the customers, they have to modify and differentiate their services from other financial companies, which assure maximum benefit to the customers.

3. OBJECTIVE OF THE STUDY

- ❖ To study the importance of housing finance in India.
- ❖ To analyze the various institutions providing housing finance in India
- ❖ To apprise the marketing strategies practicing by the housing financial institutions.
- ❖ To compare marketing strategies of public and private sector banks in housing finance.
- ❖ To suggest measures to make housing finance more effective of both public and private sector banks.

4. CONCEPT OF HOUSING FINANCE

The housing shortage is increasing day by day

as a proportion to the massive increase in population. Today, there are more than 350 housing finance companies registered with the registrar of companies of these 29 have been approved by National Housing Bank for financial assistance. The housing finance industry has been borrowing at the rate of nearly 35% for the last two years. Over the last 3 years Commercial banks and Private sector banks have been playing an important role in housing finance. All Commercial banks and Private sector banks are now emerging as lenders in the segment, taking a slew initiatives in the form of opening dedicated outfits/cells to cater to the ever-increasing demand for housing loans, offering competitive interest rates with fixed/ variable options, Waiver of processing fee, Free additional attractive packages and flexibilities in housing loan Schemes. Generally the traditional trend of the term "Housing Loans" or "Housing Finance" means finance for buying or modifying a property. Hence "Housing Finance" may be defined as the financial resources for an individual or a group of persons used facially for the purpose of housing.

The Working Group on Rural Housing for the Twelfth Five Year Plan (2012-17), has estimated the total housing shortage in rural areas at 43.67 million units. It is also of major concern that 90 per cent of the rural housing shortage (approximately, 39.30 million units) are in respect of Below the Poverty Line (BPL) categories. The vulnerabilities to the rural housing sector are often thought to be limited to the delivery system for housing materials, services and finance. The sector, however, is deeply affected by infrastructure deficit – roads, electricity supply, drinking water and sanitation. Housing finance which plays a key role in the urban housing revolution is rather conspicuous by its absence in the rural setting. To aggravate the situation further, there is a real paucity of common or non-agricultural land for meeting the housing needs of the poor; whatever little is available is pre-empted by the demands from other sectors. The lack of vibrancy in the market for village properties and the marked volatility in agricultural incomes combine to dampen the prospects of this sector.

5. HOUSING FINANCE INSTITUTIONS IN INDIA

At present housing finance market has a keen competition, among the public sector housing finance companies, private sector housing companies and banks. Housing Finance is an important element of housing policies persuaded by' the Governments of developed and developing countries of the world. In India the flow of credit into the housing sector comes from two sources that is formal and informal sectors. According to Dr. Rangarajan Committee Report in the year 1987, the formal sector has been boom in the financial markets.

The major housing financial institutions meeting housing finance in India are as follows:

- (i) **Scheduled Commercial Banks:** The Indian Mortgage Market has been growing at around 18 per cent in the fiscal year 2010-11 owing to enabling factors such as a stable operating environment, buoyant property prices etc. The share of Banks can be attributed to extensive network and broad customer base, access to stable low-cost funds and other regulatory mandates.
 - (a) Public sector banks: SBI, PNB, Bank of Baroda, Dena Bank, Bank of India, Allahabad Bank, OBC etc.,
 - (b) Private sector banks: HDFC, ICICI bank, Axis Bank, IDBI, ING Vysya Bank etc.,
 - (c) Foreign Banks: Standard Chartered bank, City Bank, HSBC etc.,
- (ii) **Housing Finance Companies:** Housing Finance Companies (specialized institutions lending for housing) registered with the National Housing Bank are a major component of the mortgage lending institutions in India. HFCs are regulated and supervised by National Housing Bank under the provisions of the National Housing Bank Act, 1987 and the directions and guidelines issued there under from time to time. The regulatory measures include prudential norms, transparent and

standardized accounting and disclosure policies, fair practice code, asset liability management and other risk management practices etc. DHFL, HDFC GRUH, India bulls Housing Finance, Sundaram BNP Paribas etc.,

- (iii) **Insurance companies:** insurance companies are another form of housing financing institution, LIC Housing finance is another major player in housing sector in India with about 8% of market share. Promoted by Life Insurance Corporation of India, LIC HFL has an extensive distribution network with a strong brand presence. Other insurance companies providing housing finance are GIC Housing Finance, New India assurance, National Insurance, ICICI Lombard, TATA AIG, Bajaj Allianz etc.
- (iv) **Micro Finance Institutions:** Microfinance Institutions or Non-Governmental Organizations who are present locally and have a bottom participative approach are making various efforts to cater to the housing finance needs of the low income segments of the society. The MFIs work on the model of SHGs linked with Banks. The National Housing Bank has recognized the penetration of Housing Micro Finance Institutions as delivery mechanisms for channelizing housing finance to the un-served sections of society and accordingly developed a suitable Housing Microfinance Programme to cater to the needs of this section.
- (v) **Developmental Financial Institutions:** HUDCO, SIDBI, NA-BARD, Apex Housing cooperative society, State Cooperative agriculture and Rural Banks etc., Development Finance Institutions (DFIs) have mainly catered to the medium to long-term financing requirements. Industrial Finance Corporation of India (IFCI) was the first DFI which was established to extend long-term finance to industry. Industrial Investment Bank of India (IIBI) Ltd, Export-Import Bank of India

(EXIM) and Tourism Finance Corporation of India (TFCI) Ltd which provide long-term finance to various sectors; and ii) refinance institutions such as National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI) and National Housing Bank (NHB) which provide finance to banking as well as non-banking financial intermediaries.

6. STRATEGIES OF HOUSING FINANCE IN INDIA

Housing finance sector is fastest growing

segment of the retail financing sector with a slew of tax breaks and sharp cut in cost of owning housing, buying a house is easier. The agencies of public sector housing finance companies, Private sector housing companies and banks are competitors in housing finance market. All the agencies feel less weighted risk in housing sector. To face the ongoing competition, the agencies adopted marketing principles, techniques and slogans. At present housing finance sector covers only 50% of the total demand, remaining 50% of the demand may be covered by housing sector through effective marketing by reducing the rate of interest on par with the developed countries, deploying more fund to housing sector and liberalizing the existing policies.

Table No. 1
Strategies in Marketing of Housing Finance between Public and Private Banks

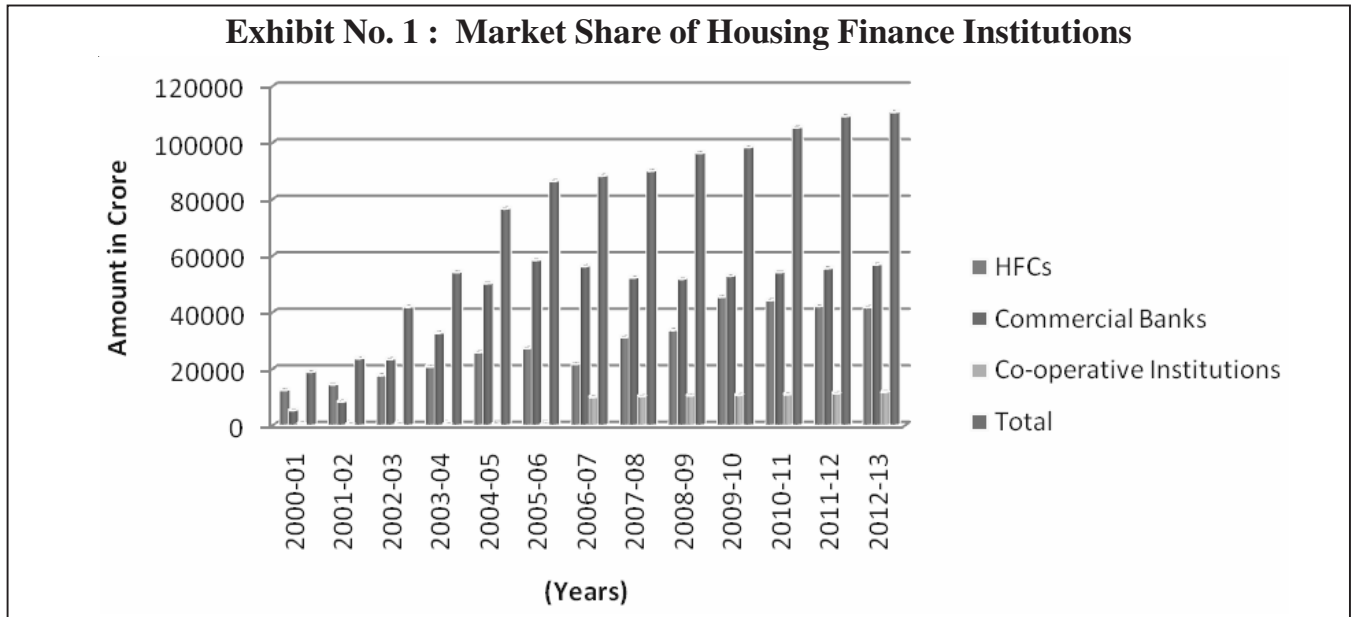
S.No.	Basic	Private Banks	Public Banks
1.	Eligibility	Individual	Individual
2.	Loan Amount	Up to 75 lacks	Construction – no limit For Repair – 25-30 lacks For Purchase of land – 50-55 lacks
3.	Rate of Interest	10.25 to 11.15%	10.25 - 10.75%
4.	Security	Mortgage of the Property to be financed	Mortgage of the Property to be financed
5.	Loan Tenure	30 years	20-25 years
6.	Margin	20 to 25%	15 to 25% on loan amount
7.	Processing Fees	For some banks processing fee is NIL	1-1.8% of Loan Amount

Table No. 2
Market share of Housing Finance Institutions (Amount in Crore)

Institutions	HFCs	Commercial Banks	Co-operative Institutions	Total
2000-01	12638	5553	868	19059
2001-02	14614	8566	678	23858
2002-03	17832	23553	642	42027
2003-04	20862	32816	623	54301
2004-05	26000	50398	421.15	76819
2005-06	27411	58622	520	86553
2006-07	21,869	56,442	10125	88436
2007-08	31,296	52,442	10440	90136
2008-09	33804	51,950	10709	96463
2009-10	45569	53,029	10908	98562
2010-11	44385	54,326	11104	105463
2011-12	42352	55,691	11420	109463
2012-13	41936	57025	11971	110932

Performance : Housing finance sector is fastest growing segment of the retail financing sector with a slew of tax breaks and sharp cut in of cost of owing housing, buying a house is easier. The agencies of public sector housing finance companies, Private sector housing companies and banks are competitors in housing finance market. All the agencies feel less

weighted risk in housing sector. To face the ongoing competition, the agencies adopted marketing principles, techniques and slogans. As average rate of interest charged by public sector housing finance companies from 11.5% to 13%, private housing finance companies from 12.5% to 13.5% and the banks charges 12% to 13% for Rs. 15,000 to 1,50,000 and above.



The above Table reveals that the housing finance disbursements have shown a significant increase from 2000-01 to 2012-13.. The total disbursements of housing finance during the year 2002-03 was Rs. 42,027

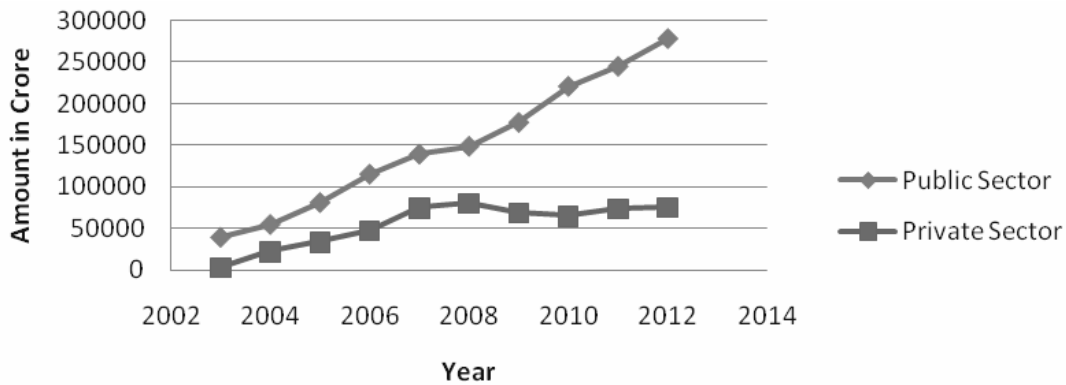
Creore and during the year 2012-13 it stood at Rs.1, 10,932 Crore, The ten year Compounded

Annual Growth Rate (CAGR) as on 2012-13 stood at 10.19 percent. The five year compounded annual growth rate with regard to HFCs and Commercial banks as on 2012-13 stood at 4.41% and 1.88% respectively. From the table, it may be seen that during the last five years, growth in housing finance was driven by commercial banks.

**Table No. 3
Housing Finance of Public and Private Sector Banks in India(Amount in Crore)**

Year	Public Sector	Share in the total bank Credit (%)	Private Sector	Share in the total bank Credit (%)	Total Bank Credit
2003	40029	5.3	3437	0.45	7,55,969
2004	55405	6.29	22322	2.54	8,80,312
2005	81700	7.09	33941	2.95	11,52,467
2006	115636	7.64	47485	3.14	15,13,842
2007	139600	7.17	74801	3.84	19,47,099
2008	148955	6.16	80264	3.32	24,17,006
2009	177468	6.23	69195	2.43	28,47,713
2010	220758	6.6	65201	1.95	33,45,169
2011	244826	6.01	73686	1.81	40,75,647
2012	277877	5.79	75753	1.58	48,03,267

Exhibit No. 2
Housing Finance of Public and Private Sector Banks in India



The table gives an insight there was a sudden spurt in the growth of housing finance by public sector banks during from 2005-06. With the phenomenon of rapid credit expansion to the household sector, the RBI has initiated several prudential policy measures. Consequently, in the year 2007, there was a slow-down in the growth rate to 25 percent. The overall exposure of the commercial banks in housing finance now constitutes almost 60 percent of the total housing finance disbursed by all institutions.

7. FINDINGS

- (a) Housing finance companies are not marketing their products properly, but they are lending the loans without considering market viability at the time lending the loan. The weighted average risk in housing finance has been very low when compare other retail lending, it is lending on mortgage of the property.
- (b) The present rate of interest on housing finance, no doubt is less compared to earlier rate, still it is not cost effective for the simple reason that it is higher when compared interest charged by other countries in fact interest charged by other countries varied from 4.5% to 5%. The rates of interest charged by the public banks were comparatively higher than the private banks in Indian scenario.

- (c) The hidden cost and processing fee in housing finance sector is higher compared to their market risk. The public sector banks were charging processing fee 1% to 2% on amount loan borrowed. The private banks are not only charging processing fee at higher rate but, they also charging hidden cost, which is almost equal to one percentage of the interest of one year.
- (d) Most of the middle class house loan borrowers are income tax assesses, one of the important objective of housing loan is to claim deduction of interest U/S 24(1) and principal Sec 80C. Irrespective of the duration of the loan, the numbers of projects completed during the lifetime, the banks are granting loans even though the maximum period of housing loan is 40 years. The borrowers continues to borrow more number of times and claiming deductions.
- (e) At the time of sanctioning housing loan, getting legal opinion from legal experts is quite common. It is flexible in case of private banks and more rigid in case of public sector banks it will motivates the borrowers to get housing loans very easy and timely.
- (f) The objective of providing housing loan at a concessional rate and giving deduction under income tax is to provide house to the roofless

people and solve the housing problem through market. Both public and private sector banks are not verifying the status of borrowers at the time of sanctioning loan.

- (g) Construction of house is one time affair in the lifetime of people, the housing loan as to borrow one time in the life of the borrower but the loan has been extending in the name of extension, repair and renewal. The housing companies are not properly verifying the nature, intension and purpose of the borrowers. They are just adopting the marketing strategy and marketing the loans.
- (h) All the housing finance companies have been facing intra and inter competition among housing financial institutions to marketing the housing loan. It is not only leads to misusing the core objective of housing loan but, also dream in case of real beneficiary having his own house.

8. SUGGESTIONS

- (a) All the housing finance institutions are must in frontline in implementation of the effective marketing strategy because of low weighted average risk in housing finance against the mortgage of houses and income guarantee borrowers. The objective of housing finance will be achieved and find solution for housing problem without more burden on the government agencies.
- (b) Housing is identified as one of the important sector in priority sector among rest of the activity of priority sector including agriculture. Both state and central government are providing loans at zero percent of interest up to 3 lacks and subsidized rate of 3% interest on rest of the loan amount. To understand the magnitude of the housing problem, the government and housing financial instructions must reduce the rate of interest on housing finance to 3% to achieve dreams of the roofless peoples.
- (c) After the introduction of service tax all the

financial institution including housing finance institutions are not properly disclosing the processing fee and the rate of service tax more particularly in case of private institution and cheating the borrower. To reduce these problems the RBI and government should strict guidelines and proper supervision is badly needed.

- (d) The government of India and RBI must think over before the extension of Basel norms, it proposed to differential rate of interest between regular and non-regular income borrowers. Housing is the basic requirements for both regular and no-regular income group. The housing loan may be costly in case of non-regular income borrowers that can be seriously considered by the government should providing housing finance at subsidize rate of interest to compensate the differential rate of interest.
- (e) The government should properly retuning income tax Act relating to house building allowance both in principal and interest on the borrowers; it is a onetime affair for one residential house. If an assesses wants to construct second and subsequent house or extension of house, the deductions must be on viable basis.

Government focusing on urban infrastructure, including housing Funds released subject to states undertaking urban reforms through public sector housing agencies. This will not only reduce the marketing problems like hidden cost, duplication housing loan borrows etc., will also increase the market share public sector agencies in the competitive global market where they are straggle to compete with foreign and private sector banks.

The increased coverage of borrowers under the database of the Credit Information Bureau all agencies has helped them reject applicants with poor credit quality. Further, The Securitization and Reconstruction of Financial Assets and Enforcement of Security In-terests (SARFAESI) Act has been very effective in controlling credit costs, as it has improved

the speed as well as the extent of recoveries from delinquent accounts.

Marketing of housing finance by housing financial institutions is healthy sign for the development of housing sector and cure the housing problem. In India there has been imbalance between the needy poor and surplus rich people, this will create an avenue to get more benefit by the rich people and to become a richest at the cost of government and also convert their black money in to white to plug this problems, the government should coming up with marketing guideline.

After the economic reforms, Indian housing finance has facing keen competition this benefit must reach the beneficiary. In this regard, the RBI and Government of India, financial institution should take proper step to educate the borrowers about housing guidelines, cost of capital and mode of operation through its marketing strategy.

9. CONCLUSION

Every citizen of the country dreams of having his own house. It is the bounden duty of the government to provide house to the houseless.

Considering the paramount importance of housing, government no doubt considered. Somewhere in 1980's Housing is a priority sector. Further government has liberalized policy which paved the way for promoting housing in a big way this is done by extending liberal finance at a reducing rate of interest without much rigid process as was observed earlier. The present rate of interest though lower still it is exhausted when compare rate of interest charged by other countries. The house finance will cost concerned only when the rate of interest is kept at 3 above inflation. Therefore it is high time for both government and housing finance companies to gear up reducing the interest rate. If the housing finance is cost effective this helps millions of people to cherish the dream of having the house. The successful housing finance lending companies share a strong focus and a heavy commitment towards marketing. The modern marketing seeks to attract real borrower by promising superior value and to keep current customers by delivering satisfaction. The sound marketing is critical to the success of all organization, whether large or small, profit or non-profit, and domestic or global. The people mostly think of marketing as only selling or advertising.



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