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Home Loans in India (Issues and Challenges) - A Comparative Study

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ABSTRACT

This paper attempts to study the performance of a selected Housing Finance company; The biggest of them all

The problem is access to finance. While investment property is an easy candidate for lending, real estate lending is more opportunity-based. In India, access to housing finance is largely centralized and targeted at higher income groups, as this is the sector where formal proof of income exists, such as payslips or income tax returns. Since lenders tend to lend to sectors where lending is easiest, the lower segments of the population pyramid will remain unserved or underserved if the system is left entirely to its own devices. Therefore, in every financial system, it is necessary to enable access to finance to the lower segments of the population pyramid. While the upper middle income segment is well served by banks and mortgage lenders, the lower middle income segment has little or no access to banks for mortgage financing; creating huge demand in this segment and lack of access to finance. The fact that the upper segments of the pyramid are well served is evident from the highly competitive mortgage rates prevailing in this sector. There is also a much longer way to go in terms of ensuring the availability of housing finance for the low to middle income groups.

Key words: Housing finance, affordable housing finance companies (AHFCs),performance, India

Introduction

An enabling approach to the housing market led governments to reduce the production of affordable housing, but some governments, such as India, continued to provide affordable housing for the poor. The lack of interest in mass-market housing among large housing companies in the 1980s and 1990s meant that many households had to depend on expensive housing supplies and city services. Surprisingly, the enabling housing market approach, which was 25 years ahead of its time, focused almost exclusively on US and European housing production and financing models that did not meet the needs of BOP populations in developing and emerging countries (Ferguson et al., 2014). These Western models were based on values that emphasize individualism and discourage cooperation. In them, collective interests are possible only when individuals seek profit for themselves. Neoliberalism has made this individualistic, selfish behavior even more extreme (Gilbert, 2014; Sennett, 2013, p. 8). The adoption of such models means that financial institutions prefer individual clients. In the Indian context, housing mortgage financing institutions primarily include banks and housing finance corporations.

Objective:

This paper aims to examine and analyze housing finance for the purchase/construction/renovation/renovation/repair of housing units which would include loans to individuals or groups of individuals including cooperative societies for the construction/purchase of new housing units by some of them. leading financial companies in India

Scope of the Study:

We take a look at some of the best home finance companies in the country.

HDFC Housing Finance

HDFC Housing Finance offers various types of home loan products such as land loan, rural housing loan, home improvement loan and home extension loan among others. Home loan interest rates start at 8.55%. Home loan schemes are available for salaried and self-employed Indians between 18-65 years.

LIC Housing Finance Limited

LIC Housing Finance offers housing loans at attractive interest rates to Indian residents, Non-Resident Indians (NRIs) and pensioners. You can use the loan for purchase, construction, extension, house repair, land purchase and credit top-up. LIC Housing Finance offers benefits like flexible repayment periods, fast loan processing, zero processing fee, zero early closing charges and no partial prepayment charges.

Indiabulls Housing Finance Limited

Indiabulls Housing offers instant home loan approval at competitive interest rates for up to 30 years. It offers benefits such as zero upfront fees, flexible tenure options and zero pre-closures, among others. The interest rate ranges from 8.80% to 12.00% p.a. The processing fee is 0.50% to 1% of the loan amount.

ICICI Home Finance

ICICI Home Finance offers attractive home loan interest rates. can avail different types of home loan products like home improvement loan, land loan, office space loan, EMI under construction, top-up loan etc. The bank offers home loan ranging from ₹ 3 lakh to ₹ 5 lakh rupees. The processing fee is 0.50% to 1% of the loan amount.

L&T Housing Finance Limited

L&T Housing Finance offers home loan at attractive interest rates for construction, home improvement and home extension. The loan tenure is up to 20 years and the amount ranges from Rs.3 lakh to Rs.10 crore. You can use housing loans for up to 90% of the value of the property. L&T Housing Finance offers benefits such as fast and transparent loan processing, instant online loan approval, attractive interest rates, minimal documentation, multiple repayment options and zero upfront fees

PNB Housing Finance Limited

PNB Housing Finance offers housing loan at a competitive interest rate for resident Indians as well as non-resident Indians. It offers housing loans under various schemes that are aimed at government employees, the general public and others.

Housing finance is a broad topic whose concept can vary across continents, regions and countries, especially in terms of the areas it covers. For example, what is meant by housing finance in a developed country may be very different from what is meant in a developing country. Housing finance brings together complex and multi-sectoral issues that are driven by ever-changing local features such as a country's legal environment or culture, economic structure, regulatory environment, our political system. The purpose of the housing finance system is to offer the funds that home buyers need to purchase their homes. That's a simple goal, and the number of ways it can be achieved is limited. This basic ease, however, has been developed in a number of countries, mainly as a result of government measures, very complex housing finance systems. However, the essential feature of any system, the ability to direct investors' funds to those who buy their homes, must remain.

A Housing Finance Company is a subsidiary form of a Non-Banking Finance Company (NBFC) which is engaged in the principal business of financing the acquisition or construction of single-family houses, which include the development of land for the construction of new houses.

General Issues of Housing Finance Sector in India

Housing finance is a relatively new idea in India's financial sector. It has been developing rapidly during the last two decades due to the Indian government's keen interest in reducing the housing problem in the country. Some of the general problems of the housing finance sector are as follows:

Government policy for the housing finance sector

In the current circumstances, the Government of India is trying to play the role of an intermediary by offering a number of housing programs for various sections of the society, but due to poor administrative control and lack of strong will, most of the programs are pushed out. only to the primary levels and will never reach their ultimate goals.

The role of the Housing Finance Regulatory Authority

The word regulation refers to specific limitations in the natural growth of an industry and a regulatory body is considered a group of people who are always devoting themselves to finding ways to create checks and balances to prevent unplanned and improper growth of the related area.

Development of basic infrastructure for housing and technological innovation

Housing is primarily an urban phenomenon. To grow, it needs some basic infrastructural facilities like road development, electricity and water supply, proper sewage system etc. Most of these facilities depend on the efforts and interest of the government. However, technical inventions in housing construction also support and promote the country's housing market by reducing the cost of construction to a reasonable level.

Both of these factors directly affect the housing finance market in the country. It is a noble symbol that central and Indian state governments deal with housing schemes often enough. But due to the unstable political environment, as in other areas, most housing projects are limited to paperwork or in the primary stage. Basic infrastructure for housing development is not available in most of the country. So, continuous efforts are being made by the Government of India, but they are not enough to support the housing industry. The higher income group of the society depends on private companies for infrastructural development of residential areas by paying higher amounts. What about the middle or lower income group? They are required to live in unauthorized and undeveloped zones where housing finance companies generally do not provide housing finance.

Distribution of national capital among the population

The distribution of national capital among the country's population directly affects the housing finance sector. If the nation's capital is distributed among the population in a rational manner, the majority of the country's population will be able to dream of owning their own houses and the chances of growth of the country's housing finance sector will remain higher.

Unavailability of funds

Funding in any area depends on the availability of funds for the purpose. Housing financing is a long-term investment that requires sufficient funds. One of the major problems facing the housing finance sector in India is the non-availability of long-term capital for investment. Funds for the housing sector usually come from individuals themselves through their own savings or from financial institutions that are primarily involved in the intermediary process of channeling funds from savers to borrowers. However, the funds so organized through formal sector financial institutions remain far below what is needed to address India's housing finance challenges.

Higher land acquisition costs

It goes without saying that at present the supply of l& for a country is perfectly inelastic. Availability of l& in adequate quantity at the right place and at an affordable price for individuals is more important for the housing finance sector. An inelastic supply of suitable l& results in a false increase in real estate costs. Besides, the very high stamp duty payable at the time of purchase of the property also greatly increases the cost of l&. It wins the price of many home ownership financing prospects.

Static company culture

In Indian society, housing is a lifelong dream of an individual and a newly employed person cannot even imagine owning a house due to his social and cultural background. Although this attitude of the society is changing since the last decade due to the development of nuclear families, tax credits for home loans. Secondly, debt is considered an evil in Indian society and the concept of 'deficit financing' is not appreciated by the masses. This type of thinking discourages one from availing the housing finance option and ultimately damages the housing finance market in the country greatly. Although this concept is currently changing, which is evident from the fact that the average age of a borrower is around 40 years. The joint family culture of Indian society also supports the housing finance market to some extent.

The housing financing sector is a step in changing customer needs

This shift can largely be attributed to higher disposable incomes, easy access to finance, higher returns on real estate investments and indeed a change in consumer mindset. With rapid globalization and the boom in the service sector, urban wages have increased, resulting in higher disposable incomes. The cultural shift from joint families to nuclear families in cities has also contributed to the demand for more houses. Working couples today place a much higher aspirational value on owning a well-built, safe and comfortable home. Banks and financial services companies sensed an opportunity and stepped in, offering housing finance at more affordable rates. As residential real estate investment returns started to yield good returns, it made a lot of sense to invest in buying a home early. Additionally, by financing a home early, the consumer could have a longer repayment period, leading to lower monthly payments or the ability to borrow more.

What does the change mean for the housing finance industry? With the average age of homebuyers falling, there has also been a natural shift in the way people buy homes and, more importantly, the way people approach home financing. Total home loan outstanding[1] in India has crossed INR 11.9 trillion, representing a year-on-year increase of 18% in the first 9 months of FY 2016. Banks, which control 63% of the total housing finance market, are re-emphasizing loans to housing as a number of new (non-banking finance companies) NBFCs and (housing finance companies) HFCs have entered the market. In a competitive environment, service providers are trying to impress young, tech-savvy consumers.

India had 1 billion mobile subscriptions in 2015 and is expected to reach 1.4 billion by 2021. Mobile traffic is expected to grow by 55% annually, and by 2021, 99% of mobile traffic in the region will come from data. Interestingly, 77% of smartphone users aged 15-24 access the internet from their mobile every day, and 30% of smartphone users access their banking sites via their smartphones. India has the youngest population of mobile banking users globally with a median age of 30, and Indian customers are the most likely to switch banks due to the availability of better mobile banking services. This generation is clearly used to having access to information at their fingertips, anytime, anywhere; in the most convenient way. Obviously, this has insider implications for home finance and it is clear that the traditional way of physically visiting a bank or NBFC is rapidly changing.

Today's digital natives expect banks and financial institutions to offer personalized products, fast and user-friendly credit services, delivered in a similar environment to industries such as travel, hotels, retail and entertainment. and they expect to be digital, they don't expect to fill out a bunch of complicated paper forms. Home finance companies need to change their strategy, improve their product offering, streamline processes and ensure a comprehensive customer experience. The current trend is to move away from lengthy paper application forms to web/mobile forms and digitized Know Your Customer (KYC) documents. With speed and trust at the top of the customer agenda, financial institutions need to leverage capabilities such as automated workflow-based processing, comprehensive credit cards (including non-traditional data sources), analytics-based decision-making and self-service to partner effectively. . There is a need to harness the vast data available to digital customers to better serve them. The potential for housing finance now extends far beyond tier-one cities in India, meaning that scalability, agility and digital connectivity are key business needs. As competition increases and margins decrease, it is essential that infrastructure and operational costs are kept to an absolute minimum. Adopting a cloud-based approach may be the best way to meet these requirements. It has now become critical for banks and NBFCs in housing finance to adapt to changing customer behavior and expectations. Globally, there are many examples of organizations successfully transforming themselves to become future ready.

Conclusion

In the recent past, India has witnessed subdued demand for expensive homes in metros and faster growth in smaller neighborhoods, resulting in a higher share of smaller neighborhoods in total housing loans over the past few years. According to a CRISIL (NS:CRSL) study, the top 50 districts in India accounted for 72% of housing demand in FY19.

In the last two years (2019 and 2020), there has been a significant growth in the share of smaller districts in drawing housing loans, and this trend should continue in the future, according to CRISIL. During fiscal years 2014 to 2019, the home loan market grew at ~18% CAGR. In this market, the premium housing contribution jumped from 44% in fiscal 2015 to 54% in fiscal 2019. Higher project starts in the premium housing segment led to the contribution growth. Note that market share in the high-priced housing segment is growing, albeit slowly, in terms of volume. However, the low-cost housing segment (less than 25 rupees) still holds more than 80% of the market share.

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