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Issues and Challenges of Housing Loans in India – A Comparative Study

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Abstract

This paper attempts to study performance of select **Housing Finance** Company; The biggest of these challenges is access to finance. While investment in real estate is an easy candidate for borrowing, real estate lending is more opportunity-based. In India, access to finance for housing needs is largely concentric and focused at higher income groups, as that is the sector where there are formal evidences of income such as salary slips or income-tax returns. Since lenders tend to lend to sectors where lending is the easiest, the lower segments of the population pyramid will remain unserved or underserved, if the system was left entirely to itself. Therefore, there is a need, in every financial system, to enable access to finance by 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 low or no access to banks for mortgage finance; creating a huge demand in this segment and lack of access of finance. The fact that the upper segments of the pyramid are well-served is evident from the highly competitive mortgage lending rates prevailing for the sector. There is also a much longer way to travel in terms of ensuring the availability of housing finance to low income to middle income groups.

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

Introduction

The enabling housing market approach resulted in governments reducing their production of affordable housing, but some governments such as India's continued providing affordable housing for the poor. A lack of interest in mass market housing among large housing corporations in the 1980s and 1990s led to many households having to depend on high cost supplies of housing and urban services. It is surprising that the enabling housing market approach, which came 25 years ahead of its time, focused almost exclusively on American and European models of housing production and finance, which did not match 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 only possible when individuals aim at gaining profit for themselves. Neoliberalism has made this individualistic, selfish behaviour even more extreme (Gilbert, 2014; Sennett, 2013, p. 8). The adoption of such models implies that financial institutions prefer individual clients. In the Indian context, housing mortgage finance institutions include mainly banks and housing finance corporations.

Objective:

This paper intends to explore and analyze housing **financing,** for purchase/ construction/ reconstruction/ renovation/ repairs of residential dwelling units which would include loans to individuals or group of individuals including co-operative societies for construction/ purchase of new dwelling units by some fof the leading finance companies of India

Scope of study

Will take a look at some of the top housing finance companies in the country.

HDFC Housing Finance

HDFC Housing Finance offers different types of home loan products such as plot loan, rural housing loan, home improvement loan, and home extension loan among others. The interest rates for home loan starts from 8.55%. The home loan schemes are available for salaries and self-employed resident Indians in the range of 18-65 years.

LIC Housing Finance Limited

LIC Housing Finance offers home loans at attractive interest rates for Indian residents, Non-Resident Indians (NRIs), and pensioners. You can avail loan for purchase, construction, extension, house repair, plot purchase, and top up loan. LIC Housing Finance offers benefits such as flexible repayment periods, quick loan processing, zero processing fee, zero pre-closure charges, and no partial pre-payment charges.

Indiabulls Housing Finance Limited

Indiabulls Housing offers instant home loan approvals at competitive interest rates for a tenure of up to 30 years. It offers benefits such as zero pre-payment charges, flexible tenure options, and zero pre-closure, 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 interest rates for home loan. can avail different types of home loan products such as home improvement loan, land loan, office premises loan, EMI under construction, top-up loan etc. The bank offers home loan in the range of Rs.3 lakh to Rs.5 crore. 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, house improvement, and house extension. The loan repayment tenure is up to 20 years and the amount ranges from Rs.3 lakh to Rs.10 crore. You can avail home loans up to 90% the property value. L&T Housing Finance offers benefits such as quick and transparent loan processing, instant online loan approval, attractive interest rates, minimal documentation, multiple repayment options, and zero pre-payment charges.

PNB Housing Finance Limited

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

Housing Finance is a broad topic, the idea of which can differ across continents, regions & countries, mainly in terms of the areas it covers. For instance, what is understood by the term housing finance in a developed country may be very different from what is understood by the term in a developing country. Housing finance brings together complex & multi-sector issues that are driven by constantly changing local features, such as a country's legal environment or culture, economic makeup, regulatory environment, our political system. The drive of a housing finance system is to offer the funds which home-based purchasers require to acquire their homes. This is a simple objective, & the number of ways in which it can be achieved is limited. However, this basic ease, in a number of countries, mainly as a result of government action, very complex housing finance systems have been developed. However, the vital feature of any system, that is, the ability to channel the funds of investors to those purchasing their homes, must remain.

The Housing Finance Company is an additional form of Non-Banking Financial Company (NBFC) which is involved in the principal business of financing of acquisition or construction of houses that comprises the development of plots of lands for the construction of new houses.

General Problems of Housing Finance Sector in India

Housing finance is relatively a new idea in the finance sector of India. It is developed rapidly during the last two decades due to the enthusiastic interest of the Government of India to cut-short the housing problem of the country. Some of the general problems of Housing Finance Sector are as under:

Government Policies for Housing Finance Sector

In the present circumstance, the Government of India is trying to play the role of facilitator by offering a number of housing schemes for different sections of the society, but due to poor administrative control & lack of strong will-power most of the schemes are squeezed only up to the primary levels & are never attained its ultimate objectives.

Role Of Housing Finance Regulatory Authority

The word Regulation refers to the specific constraints in the natural growth of a sector & the Regulatory Body is considered as a group of people who always indulge in search of the ways which could create checks & balances to hinder the unplanned & improper growth of the related area.

Development of Fundamental Infrastructure for Housing & Technological Innovations

Housing is primarily an urban phenomenon. It needs some basic infrastructural facilities like roads development, electricity & water supply, proper drainage system, etc. to grow. Most of these facilities depend upon Government efforts & interest. However, the technical inventions in the part of housing construction also support & promote the housing market in the country through the cut down the cost of construction up to a reasonable level.

Both of these factors affect the housing finance market of the country directly. It is a noble symbol that the Central & the State Governments of India are concerned enough about housing schemes frequently. But due to the unstable political environment, like the other areas, most of the housing schemes are limited up to paperwork or within its primary stage. The elementary infra-structural amenities for housing development are not available in most of the areas of the country. Thus the constant efforts are done from the side of Indian Government but these are not enough to give a boost to the housing industry. The higher income group of society is depending on the private Company for infra-structural development of residential areas by paying more amounts. What about the middle or lower income group? They are obligatory to live in non-authorized & non-developed zones where housing finance facilities are generally not provided by housing finance companies.

Distribution of National Capital among Population

The distribution of national capital among the population of the country affects the housing finance sector directly. If the capital of the nation is distributed among the population in a rational manner, the most of the population of the country will be in a position to dream for their own houses & the chances of growth of the housing finance sector of the country will remain higher.

Non-Availability of Funds

Financing in any area depends on the availability of funds for the purpose. Housing finance is a long-term investment, which requires plenty of funds. One of the main problems of the housing finance sector of India is non-availability of long-term capital for investment. Conventionally, the funds for the housing sector have originated from the individuals themselves by way of their own savings or from the financial institutions that are primarily engaged in the intermediation process of channelizing funds from the savers to the borrowers. But, the funds so organized through the formal sector financial institutions remain much lower than what is required to tackle the problems of housing finance in India

Higher Cost of Acquisition of Land

It needs not to be mentioned that in the present time the supply of l& is perfectly inelastic for a country. The availability of l& in adequate quantity at the right place & at an affordable price by the individual is more important for the housing finance sector. The inelastic supply of suitable l& results in a spurious increase in the cost of real estate. Besides, the very high stamp duty payable at the time of purchase of property also causes an increase in the cost of l& significantly. It gets priced out many potential housing finance customers in owning a house.

Static Culture of the Society

Among Indian society, housing is a lifetime dream of an individual & a newly employed person cannot even imagine for his own house due to his social & cultural backgrounds. Although this attitude of society is changing from the last decade due to the development of nuclear families tax rebate on housing loans. Secondly, the debt is considered as an evil in Indian society & the concept of 'Deficit Financing' is not appreciated by the masses. This type of thinking discourages a person to avail the facility of housing finance & ultimately hurts the housing finance market of the country remarkably. Although this concept is now changing, which is evident from the fact that the average age of borrower is around 40 years. The joint family culture of Indian society also legs the housing finance market to some extent.

Housing Finance Sector a step in Varying the needs of the Customer

This shift can be largely attributed to higher disposable incomes, easy access to finance, higher returns from real estate investments & indeed a change in the consumer mindset. With rapid globalization & a boom in the services sector, salaries in cities have risen, 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 & comfortable house. Sensing an opportunity, the banks & financial service companies stepped in, offering home finance at more affordable rates. As the returns from investment in a residential property started yielding good returns, it made a lot of sense to invest early in buying a home. Moreover, by financing a house at an early age, the consumer was able to have longer repayment tenure – leading to lower monthly repayments or the ability to borrow more.

What does the change mean for the housing finance industry? With the average age of home buyer coming down, there has also been a natural shift in the way people buy homes & more importantly, the way people approach housing finance. The total housing credit outstanding[1] in India crossed INR 11.9 trillion, clocking an annualized 18% growth in the first 9 months of FY2016. There has been a renewed emphasis on housing loans by the banks, which control 63% of the overall housing finance market as a number of new (Non-Banking Finance Companies) NBFCs & (Housing Finance Companies) HFCs have entered the market. In a more competitive environment, the service providers are trying to impress the young, tech-savvy consumer.

India had 1 billion mobile subscriptions in 2015, set to reach 1.4 billion by 2021. Mobile traffic is expected to grow annually at 55% & in 2021, 99% of the region's mobile traffic will be from data. Interestingly, 77% of smartphone users, aged 15-24 years, access internet on mobile every day & 30% of the smartphone users access their banking websites via their smartphones. India has the youngest population of mobile banking users across the globe at a median age of 30 & Indian customers demonstrate the highest likelihood of changing banks driven by the availability of better mobile banking services. This generation is clearly used to accessing information at their fingertips, anytime, anywhere; in the most convenient way. Obviously, this has insightful implications for home finance & it is evident that the traditional way of physically visiting a bank or an NBFC is fast changing.

Today's digital natives expect banks & financial institutions to offer personalized products, fast & user-friendly loan services, delivered in an experience similar to that offered in industries such as travel, hotel, retail & entertainment. & they expect them to be digital, they don't expect to fill in lots of complex paper-based forms. Housing finance companies need to change their strategy, enhance their product offerings, streamline processes & deliver an end-to-end customer experience. The trend now is to move away from lengthy, paper-based application forms to web/mobile-based forms & digitized Know Your Customer (KYC) documents. With speed & trust on top of customers' agendas, financial institutions need to use capabilities such as workflow-based automated processing, comprehensive credit scorecards (incorporating non-traditional data sources), analytics-based decision making & self-servicing for the effective partnership. There is a need to leverage the vast data available for digital customers to serve them better. The potential of housing finance now extends well beyond the tier 1 cities in India, which means that scalability, agility & digital connectivity are key business needs. As competition rises & margins decline, it is crucial that infrastructure & operational costs are kept to an absolute minimum. Adopting a cloud approach may well be the best way to cater to these requirements. It has now become critical for banks & NBFCs in housing finance to adapt to changing customer behaviors & expectations. There are many examples globally where organizations have transformed successfully to be future-ready.

Conclusion

India witnessed subdued demand for high-priced homes in metros and faster growth in smaller districts in the recent past, and it resulted in a higher share of smaller districts in overall home loans over the past few years. According to the CRISIL (NS:CRSL) study, the top 50 districts in India accounted for 72% of the housing demand in fiscal 2019.

The last two years (2019 and 2020) have mainly seen vivid growth in the share of smaller districts in the home loan disbursements, and this trend is anticipated to continue in the future, according to CRISIL. During fiscal 2014 to 2019, the home loan market grew at ~18% CAGR. In that market, the contribution of high-priced housing jumped from 44% in fiscal 2015 to 54% in fiscal 2019. Higher project launches in the high-priced housing segment led to the growth in contribution. Note that the market share of the high-priced housing segment is increasing, albeit slowly, in volume terms. However, the low-priced housing segment (less than Rs 25 lacs) still holds more than 80% of the market share.

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