



PROBLEMS AND PROSPECTS OF HOUSING FINANCE IN VARANASI

DIVISION- A COMPAPRATIVE STUDY OF LICHFL & HDFC LTD

Suman Kannoujia, Research Scholar, Faculty of Commerce (B.H.U.)

Abstract: *Housing finance is a relatively new concept in India comparing to other financial services that are widely available in the country since a long year back. However, the speedy development in housing and various housing activities have understandably led to the growth of Indian housing finance market. As a result, a number of players have barged into the market. This paper is an attempt to identify various problems occurs at the time of taking home loan from Housing Finance Institution and also assesses the awareness and perception level of the customers. Structured Questionnaire and suitable statistical tools has been used to derive a concrete result.*

Keywords: *Housing Finance, Problems, Housing Finance Institutions*

INTRODUCTION

Housing is one of the basic needs of mankind and it is as essential as food and clothing. The problem of housing has been of great importance ever since the evolution of mankind. The primitive men were usually vagrants in nature with no specific place to stay. They lived in caves and tree holes to protect themselves from wild animals and vagaries of nature. Later when civilization began to flourish, people built durable habitations and started to settle in their cultivating land. Thus, housing is a pre-requisite to civilized life. House is viewed not only as a basic need, but an instrument of change to generate income, provides safe living and increase productivity. It places a significant role in the socio-psychological development of individual.

House is fundamental to man's existence and survival. That is, on satisfying his biological need, man also attempted to satisfy his physiological need of shelter for rest and for reproduction. Therefore, housing should necessarily meet four requirements – (i) shelter from intruders and natural forces, (ii) protection from physical damages like fire, collapse etc., (iii) provision for basic amenities like sanitation, disposal of waste etc. which promote good health, and (iv) Adequate space and privacy.



INDIAN HOUSING FINANCE INDUSTRY

Since independence, the institutional framework for housing finance was in the form of insurance companies like LIC and GIC. Then in 1970, the Government set up the Housing and Urban Development Corporation (**HUDCO**) as a 100 per cent, Government owned enterprise with the objective of housing and urban development as well as infrastructure development. The housing policy of HUDCO was designed to allocate 55 per cent of its housing finance to the low income and weaker sections of society.

However, the Housing Development Finance Corporation (**HDFC**) was the India's first private sector housing finance company came into existence in 1977. Since then, the housing finance in India has been flying high. It's expected to grow at a growth rate of 36% in the coming years.

National Housing Bank (**NHB**) is the apex level financial institution for the housing sector in the country and a wholly owned subsidiary of the Reserve Bank of India. Established on July 9, 1988 under the National Housing Bank Act, 1987. National Housing Bank has been empowered to determine the policy and give directions to the housing finance institutions. The principal mandate of the Bank is to promote housing finance institutions to improve/strengthen the credit delivery network for housing finance in the country.

COMPANY PROFILE

LIC Housing Finance Limited (LICHFL)

Established on 19th June 1989 under the Companies Act, 1956. The Company was promoted by LIC of India. The Company is recognized by National Housing Bank and listed on the National Stock Exchange (NSE) & Bombay Stock Exchange (BSE). The Company continues to be rated as 'AAA/Stable' by the credit rating agency CRISIL for the 13th consecutive time in 2014-15. The Company has set up a Representative Office in Dubai and Kuwait to cater to the Non-Resident Indians in the GCC countries covering Bahrain, Dubai, Kuwait, Qatar and Saudi Arabia.

Housing Development Finance Corporation (HDFC)

HDFC was incorporated in 1977 with the primary objective of meeting a social need that of promoting home ownership by providing long-term finance to households for their housing. HDFC was guided by its core objective housing for all, though the development of the Housing Finance Sector in India. It is viewed as an innovative institution and a market leader



in the housing finance sector in India. The World Bank considers HDFC, as a model Private Sector Finance Company in developing countries and a provider of technical assistance for new and existing institutions in India and Abroad.

REVIEW OF LITERATURE

Housing is a broad area covering housing industry, housing finance and other related services. Considering the significance of housing as an important subject matter, several studies have been conducted in this field both at home and abroad. A number of articles and reports covering various aspects of housing also have been published. The government and RBI reports also contain sufficient literature in the field of housing finance.

A brief note of some of the studies, articles and reports are given below.

Dr. P.S. Ravindra, Dr.P.Viswanadham and Ch.T.Rao, (2013) investigated on “Operational and Financial Performance Evaluation of Housing Finance Companies in India (a case study of LIC Housing Finance Limited and HDFC)” and found that the success of the LICHFL and HDFC in the housing industry is in its marketing network and suggested that both housing finance institution should modify and differentiate their service packages from other financial companies which assure maximum benefits to the customers.

J. Babu, (2013) investigated on “Housing Finance Problems of Borrowers (A Comparative Study of LICHFL and HDFC)” and found that the major problem of sample borrowers is with regard to rigidity of rules and regulation and suggested that the loan application and other documents may be supplied to the borrowers in local languages for easy understanding he also suggested that the period should be reduced considerably by simplifying the procedures on the part of HFI’s.

S.T.Rao, (2013,) investigated on “A Study on Comprehensive Problems of HDFC and SBI Home Loan Takers in Andhra Pradesh State” and found that the designing of shelter policy, the organization of the housing finance market, the Introduction of Fiscal incentives , increased public investment have brought about the no. of changes in the housing finance and suggested that home loan providers should continue to address the huge potential in the industry and should maintain their focus on the individual loan segment he also suggested that service and product innovations are the key tools for success at present.

Dr. Shiv Kumar Garg & Dr. Gajendra Kumar, (2014) investigated on “Housing Finance in India: (A Comparative Study of Public and Private Sector Banks)” and found that the present



rate of interest on housing finance is not cost effective, the hidden cost and processing fee in housing finance sector is higher as compared to other market risk, all the housing finance companies have been facing intra and inter competition among housing finance. And suggested that housing finance institution should properly disclose the processing fee and rate of service tax more particularly in case of private institution and RBI and government should strict guidelines and proper supervision in housing finance industry.

P. K. Manoj (2004), examined on, “Dynamics of Housing Finance in India”, made an attempt to study the growth and development of housing finance system in India. He also emphasized the importance of housing to the economy and prospects of housing finance industry. He found the risk factors and issues involved in aggressive lending to housing due to cut- throat competition, and the peculiar features of the existing regulatory and legal system. and he suggested that measures should be taken to promote active mortgage backed securitization market in India, which can further strengthen our housing finance system and make it more competitive.

Utkarsha Gupta and Dr. Richa sinha (2015) examining on the respondent regarding the purchase of home loan and low rate of interest, easy accessibility, status/ reputation of the institution and scheme offered by the company are the major factor for selection of the housing finance institution comparative study on Factor Affecting consumer’s Buying Behavior towards Home Loan (with special reference to SBI and LICHFL)” and found that fixed rate of interest is most preferred option by the customers.

OBJECTIVES OF THE STUDY

- 1) Examining the role of HDFC and LICHFL in alleviating the problem of housing finance in Varanasi.
- 2) Assessing and comparing the awareness, perception and level of satisfaction of the customers of HDFC and LICHFL with regard to the housing finance services rendered by the respective lending institutions.
- 3) To provide suggestions for the improvement of performance of the institutions.

SCOPE OF THE STUDY

This is a micro level study. The research design adopted for the study is both descriptive and analytical in nature. For the purpose of the study LICHFL & HDFC has been taken and



all the aspect concerning about problems of borrowers for housing finance, their perception and the satisfaction level are sought to be covered in detail in this study.

RESEARCH METHODOLOGY

The study falls under the comparative study approach for the purpose of conducting an empirical investigation to the issue of Housing finance. Data are collected both through the primary and secondary sources.

COLLECTION OF DATA

The present study is mainly based on the primary as well as secondary data. The main source of primary data collection is through **Structured Questionnaire** which has filled by salaried people, business men, and professionals. Secondary data has been collected through various official and non- official records. These materials comprised of booklets, brochures, bulletins, annual reports, newspapers, records, journals etc.

ANALYSIS OF DATA

The data are classified, tabulated and analyzed according to the objectives of the study. The analysis are carried out by making use of various statistical tools such as percentage analysis, descriptive analysis, inferential analysis such as chi- square, co-relation, etc. as per the requirement on the tabulated data to analyze the same and bring out the hidden fact.

SIGNIFICANCE OF THE STUDY

Although my research work is for academic purpose, it would also help to business executives, Government planners, research scholars and common public. It would be helpful to improve the services of the Housing Finance Institutions. The fields of Housing Finance have been selected because this is the most burning topic of this day. Housing is a basic human need and a complex problem. Owning a house is a dream for most families because the self earned income of an individual or a family is not sufficient to own a house, considering the huge investment required for housing. So, there arises the need for housing finance. The different HFI's including commercial banks started to capitalize the opportunities that the economic reforms made in the housing finance sector of the country by designing their products to suit the varying housing needs of the people. But, this creates problem at the receiving end. Now, the people are confronted and confused



with the selection of schemes by making the analysis of their relative merits and demerits.

In this juncture, it is important to analyze how far the selected HFIs from the specialized housing finance sector are able to combat the competition created in the housing finance industry by the economic reforms initiated in the country. It is also important to know the level of awareness of the borrowers of these institutions and the extent to which they are satisfied with the products offered to them by the lending institutions. The result of the study shall help the lending agencies to render better services in tune with the expectation of their borrowers. The study will also facilitate the government in formulating or revising housing policies and fiscal concessions while drafting their budgets. The prospective borrowers in the housing finance industry can also be benefited as they become more aware of the innovative home loan schemes and their related aspects, which shall help them in the formulation of rational financial management policies in their personal lives.

PERCEPTIONS AND PROBLEMS OF HOME LOAN BORROWERS IN VARANASI

Purpose of borrowings loan

HFIs offer various home loan products to its customers that include loan for Land purchase, for House Construction, House Purchase, and House Improvement etc.

Table 1: Purpose of Borrowings Loan

Purpose	LICHFL	HDFC	TOTAL
Land Purchase	8 (5.3)	1(0.7)	9 (3)
Purchase of new house	89 (59.3)	79 (52.7)	168 (56)
Construction	38 (25.3)	51 (34)	89 (29.7)
Extension & Repair	10 (6.7)	14 (9.3)	24 (8)
Other Purposes	5 (3.3)	5 (3.3)	10 (3.3)
Total	150	150	300

It can be observed from Table 1, that highest proportion of respondents of LICHFL 59.3 per cent and 52.7 per cent respondents of HDFC had taken home loans for purchase of house. For construction of house 25.3 percent and 34 per cent had taken belonging to LICHFL and HDFC respectively

Tenure of home loans

Tenure of the loan depends upon borrower's age, type of the loan, earning capacity etc.



Table 2: Tenure of home loans

Years	LICHFL	HDFC	TOTAL
5-10	30 (20)	39 (26)	69 (23)
10-15	45 (30)	55 (36.7)	100 (33.3)
15-20	55 (36.7)	44 (29.3)	99 (33)
Above 20	20 (13.3)	12 (8)	32 (10.7)
Total	150	150	150

It is evident from Table.2, that 36.7 per cent of respondents with reference to LICHFL took the loan for the period of 15-20 years. Similar number of respondents of HDFC took the loan for period of 10-15 years. 26 per cent of HDFC respondents had taken loan for 5-10 years which is the shortest period. And 13.33 per cent of the LICHFL respondents have taken loan for the period of above 20 years.

Table 3: Type of Interest opted by Borrowers

TYPE	LICHFL	HDFC	TOTAL
Fixed Rate	49 (32.7)	47 (31.3)	96 (32)
Floating Rate	101 (67.3)	103 (68.7)	204 (68)
Total	150	150	300

It can be observed from the table.3 that, 67.3 per cent of LICHFL and 68 per cent of HDFC opted for floating rate of interest as present economy is featured by falling rate regime.

Opinion Regarding Rate of Interest Charged by the LICHFL & HDFC

To examine the opinion regarding the rate interest charged by the HFIs, the borrowers were asked to indicate their opinion on five-point scale.

Table 4: Opinion Regarding Rate of Interest Charged by the LICHFL & HDFC

Opinion	LICHFL	HDFC	TOTAL
Very High	10 (6.7)	6 (4.00)	16 (5.3)
High	53 (35.3)	25 (16.7)	71 (26.0)
Moderate	70 (46.6)	70 (46.7)	140 (46.7)
Low	15 (10.0)	39 (26)	54 (18)
Very Low	02 (1.3)	10(6.6)	12 (4.0)
Total	150	150	300

Table.4 depicts that 32.66 per cent of HDFC respondents felt that the interest rate charged it is low and very low. Whereas 42 per cent of LICHFL's respondents opined that it is charging very high and high rate of interest. And 46.67 per cent respondents of both the HFIs expressed their opinion that the interest rate is moderate.



Processing Time

All the institutions take few days to process the application and to sanction the loan. Table.5 presents the processing time taken by LICHFL and HDFC.

Table 5: Time Taken in Processing the Loan

Days	LICHFL	HDFC	TOTAL
Less than 7	22 (14.7)	65 (43.33)	87 (29)
08-15 days	24 (16.0)	46 (30.7)	70(23.3)
16-30 days	28 (18.7)	27 (18)	55 (18.3)
More than 30 days	76 (50.7)	12 (18)	88(29.3)
Total	150	150	300

It can be concluded from the table.5 that, 43.33 per cent and 30.7 per cent of HDFC's respondents specified that processing time was less than 7 days and 8-15 days. Whereas 50.7 per cent of LICHFL's respondents claimed that the processing time was above 30 days. It was obvious that the loan processing of HDFC is much lesser than that of LICHFL, as it follows decentralization system is processing. As a factor it was ranked as second by the respondents of HDFC. The chi-square test was applied to test the hypothesis that the processing time varies according the institution.

H0: There is no significant difference between the institutions with regard to time taken for processing the loan, as against.

H1: There is significant difference between the institutions with regard to time taken for processing the loan.

From the data, the calculated Chi-square test statistic value 73.85 and the critical value at 5% level of Significance for 3 degrees of freedom is 7.81. Since, calculated value is greater than the critical value. H0 is rejected. It can be concluded that there is significant difference between the institutions with regard to time taken for processing/sanctioning the loan.

Repayment Schedule

The loan is repaid in the form of installments. HDFC offers various flexible repayment options like Step up Repayment Facility. Flexible Loan Installment Plan, Balloon Payment Plan and Structured Repayment Plan etc. Thus, these flexible repayment options given to the borrower, provides freedom to structure the repayment schedule to suit the individual needs.



Opinion Regarding Procedural Formalities

All the institutions sanction the loan after customers abide certain formalities, which differ from Institution to institution. Respondents were asked to indicate their opinion on five-point scale and table.6 shows the opinion regarding procedural formalities towards LICHFL and HDFC.

Table 6: Opinion Regarding Procedural Formalities

Procedural Formalities	LICHFL	HDFC	TOTAL
Very Reasonable	26 (17.7)	56 (37.6)	82 (27.3)
Reasonable	50 (33.3)	70 (46.7)	120 (40)
Un Reasonable	55 (36.7)	22(14.7)	77 (25.7)
Very Unreasonable	19 (12.7)	2 (1.3)	21 (7)
Total	150	150	300

The table 6 reveals that, 37.6 per cent and 46.7 per cent of the respondents of HDFC claimed that Procedural formalities are very reasonable and reasonable respectively, which is really noticeable with regard to LICHFL, 36.7 and 12.7 per cent specified that procedural formalities are un-reasonable and very unreasonable. This is the issue which has to be taken care by LICHFL.

Awareness Regarding Recovery Procedure Followed by the Concerned HFI with Regard to the Default Loans

To know the awareness regarding the procedure that is being followed by the HFI with regard to the default loans, the respondents were asked about awareness and results were shown in the table 7.

Table 7: Awareness about default loan

Particular	LICHFL	HDFC	TOTAL
Yes	122 (81.3)	132 (88)	254 (84.7)
No	28 (18.7)	18 (12)	46 (15.7)
Total	150	150	300

It can be revealed from the table.7 that, awareness level was high with regard to the respondents of both the institutions. 88 per cent of the HDFC's respondents and 81.33 per cent of LICHFL's respondents were aware of the concerned procedure. The Chi-square test was applied to test the hypothesis that the awareness about recovery procedure followed by the concerned HFI with reference to the default loans.



H0: There is no significant difference between the institutions with regard to the awareness about recovery procedure followed by the concerned financial institution with reference to the default loans, as against.

H1: There is no significant difference between the institutions with regard to the awareness about recovery procedure followed by the concerned financial institution with reference to the default loans.

From the data, the calculated Chi-square test statistic value is 2.57 and the critical value at 5% level of Significance for 1 degree of freedom is 3.84. Since, calculated value is less than the critical value therefore H0 is accepted. It can be concluded that there is no significant difference between the institutions with regard to the awareness about recovery procedure followed by the concerned HFI with reference to the default loans.

Availing tax benefits on Home Loans

The home loan borrower is eligible for certain tax benefits of principal and interest components of a loan under the Income Tax Act, 1961. The borrower can claim these benefits, whether he borrows LICHL or HDFC.

Table 8: Availing tax benefits

Particular	LICHL	HDFC	TOTAL
Yes	142 (94.7)	138 (92)	280 (93.3)
No	8 (5.3)	12 (8)	20(6.7)
Total	150	150	300

Table.8, shows that 94.7 per cent and 92.00 per cent of the respondents' belonging to LICHL and HDFC are availing tax benefits.

Overall opinion on Home Loans of LICHL and HDFC

To know the satisfaction level of the customers with regard to the overall functioning of the loan of two HFIs under review, five-point scale has been used.

Table 9: Overall perceptions on home loans of LICHL & HDFC

Particular	LICHL	HDFC	TOTAL
Very Good	14 (9.3)	49 (32.7)	63 (21)
Good	39(26)	60(40)	99 (33)
Moderate	50 (33.3)	29(19.3)	79 (26.3)
Poor	40 (26.7)	12 (18)	52 (17.3)
Very Poor	7 (4.7)	Nil	7 (2.3)
Total	150	150	300



It can be concluded from the table 9 shows that, 32.7 per cent and 40 per cent of HDFC are opined that overall functioning is very good and good respectively, which is noteworthy. 33.33 per cent of LICHFL respondents expressed its functioning as moderate and 26.7 per cent specified as poor.

Difficulties in loan Sanction

The customers while taking the home loan from FIs may face certain difficulties like a too lengthy procedure, delay in processing & sanctioning of the loan, lack of communication, no transparency, un co-operative attitude of the staff members etc.

Table 10: Difficulties faced by borrowers

Problems faced by Customers	LICHFL	HDFC
Formalities	47 (31.33)	23 (15.3)
Delay in Sanctioning Loan	61 (40.6)	18 (12)
Communication delay	27 (18)	8 (5.3)
No Transparency	3 (2)	6 (4)
Others	10 (6.6)	9 (6)

It can be observed from the table.10 depicts that, maximum proportion of the respondents of LICHFL faced the difficulties with regard to formalities to be fulfilled.

FINDINGS

1. The home loan application/sanction procedure is too lengthy.
2. HFIs are collecting high amount of processing, administration, conversion fee and other charges like prepayment penalty.
3. The change in the terms and conditions especially with regard to interest rate changes are not being communicated.
4. The reasons for rejecting the loan application are not being informed.
5. Delay in loan processing/sanctioning time especially with reference to SBI.
6. There is no transparency in lending practices.

LIMITATIONS OF THE STUDY

1. Only individual loan schemes offered by the HFIs had been studied. Thus, the study neither covers the corporate loan schemes offered by the HFIs nor the corporate customers.



2. Only operational performance of the HFIs under review was studied and the evaluation of the institutions had been done on the basis of their figures from the annual reports at all India level.

SUGGESTIONS

1. The loan application formalities should be simplified.
2. Most of the customers opined that institutions should not charge any processing, administration, conversion fee and other charges like prepayment penalty.
3. The customers also suggested that institutions should provide online approval of applications.
4. The change in the terms and conditions especially with regard to interest rate, the concerned customers should be informed.
5. HFIs should inform the reason for rejecting the loan application. This will help the applicants in rectifying their mistakes.
6. To win confidence of the customer and bring transparency in all the transactions, it is necessary that their loan accounts should be made available on the Internet. HDFC is the way ahead in these criteria.
7. The customers of SBI suggested that the loan processing/sanctioning time should be reduced further.
8. All employees, especially the front officers of SBI should be familiar with the details of Housing Loan schemes of their banks.
9. All information regarding Housing Loans should be available on the websites of the HFIs in an interactive mode.
10. There should be uniformity in loan sanction procedure, interest rate structure among the various lenders.

CONCLUSION

Home Loan providers should continue to address the huge potential in the industry and would maintain their focus on the individual loan segment. A trend that has emerged over the years in the housing finance is that the decreasing role of interest rates as a competitive tool. Service and product innovations are the key tools for success at present.



REFERENCES

1. Aldrich Brian, C and Sandhu Ravinder. S. *Housing the Urban Poor: Policy and Practice in Development Countries*. New Delhi: Vistaar Publications, 1995.
2. Avadhani, V.A. *Marketing of Financial Services*. Mumbai: Himalaya Publishing House, 1999.
3. Baskara Rao, B. *Housing and Habitat in Developing Countries*. New Delhi: Newman Group of Publishers, 1979.
4. Bertrand Renard. *Housing and Financial Institutions in Developing Countries*. New York: World Bank, 1983.
5. Bhattacharya. K. P. *Affordable Housing and Infrastructure in India*. New Delhi: Reliance Publishing House, 1998.
6. Avtar Singh Sahota. "Schemes on Rural Housing". *Kurukshetra*, 53, No.12 (2005).
7. Borge Brende "The Commission on Sustainable Development Focusing on Urban Slums". *UN- Habitat*, 9, No. 3 (2003).
8. Dhar, V.K. "Housing Finance and the Urban Poor". *NCHF Bulletin*, 17, No.1 (2004).
9. Gupta, P.K. "Bank Funds Flow to Rural Housing". *IBA Bulletin*, No.4. (2005).
10. Gupta, Praveen. "Housing Finance Companies – an Insight into Regulatory Aspects". *The Chartered Accountant*, 53, No. 8 (2005).
11. Hasanbanu, S and Jeya Shree. "A Comparative Study on Factors Influencing Housing Loan Borrowers of Public and Private Sector Banks in Utthamapalayam Thaluk". *Indian Journal of Marketing*, June (2006).
12. Manoj, P.K. "Dynamics of Housing Finance in India". *Bank Quest*, 75, No.3 (2004).

Websites

1. www.hdfc.com
2. www.hudco.org.
3. www.lichousing.com
4. www.nhb.org.in
5. www.rbi.org.in