



“HOUSING FINANCE: THE ROLE OF GOVERNMENT & INSTITUTIONAL FRAMEWORK”

Dr. M. K. Thitte¹ and Vitthal Dhondiba Jadhav²

¹Associate Professor, Department of Commerce

Swami Vivekanand Mahavidyalaya, Mantha, Dist. Jalna.

² Research Scholar in Commerce.



ABSTRACT:

Indian housing finance sector has experienced unprecedented changes in its structure from its formulation stage. The structure of the Indian housing finance market rapidly changed with the arrival of the commercial banks in the late nineties. Two major types of institutions primarily dominate the formal housing finance system in India. The two major institutions are Commercial Banks (CBs) and Housing Finance Companies (HFCs). These two institutions share about 99.5 percent of total housing finance market of India. Co-operative institutions share the rest of 0.5% of Indian housing finance industry. In the pre-reforms era, the HFCs were prominent in the institutional housing finance market, many of these HFCs being the housing finance subsidiaries of prominent CBs or those promoted by leading developmental institutions. The most prominent HFC continued to be HDFC-the pioneer HFC and also the largest in India, ever since its inception in 1977. HUDCO provides housing finance for 11.5 per cent and after deductions the interest rates comes to 8.81 per cent. LIC Housing Finance offers variety of loans like housing finance for new purchases, re-constructions, renovations, NRI housing finance etc.

KEYWORDS: Indian housing finance, commercial banks , Housing Finance Companies.

INTRODUCTION:

Home is one of the things that everyone one wants to own. Home is a ‘dream’ of every person that shows the quantity of efforts, sacrifices luxuries and above all gathering funds little by little to afford one’s dream. Home is a shelter to person where he rests and feels comfortable. The demand of home loans has increased dramatically. For fulfill this purpose many banks are providing home loans whether commercial banks or financial institutions to the people who want to have a home. Part of the reason for this increase is because the accessibility of loans has gotten bigger.

Indian housing finance sector has experienced unprecedented changes in its structure from its formulation stage. The structure of the Indian housing finance market rapidly changed with the arrival of the commercial banks in the late nineties. The beneficiary at the end in this stiff competition is the customer. The marketers in the housing finance market, due to tough competition, started offering heavy concessions to the home finance seekers. The players with competition to each other started offering most value added and efficient services to the customers. Virtually, the housing finance market became dominated by the customers with various options in their hands. The offering of services and applying best marketing strategies are some of the weapons in the hands of the marketers to attract customers and retain them. This objective can be achieved by good quality service, better human approach, courtesy of the employees and better infrastructure facilities. Familiarity with various laws relating to home loans, knowledge about environmental constraints and new product developments will help the marketers to compete in the housing finance market.

Two major types of institutions primarily dominate the formal housing finance system in India. The two major institutions are Commercial Banks (CBs) and Housing Finance Companies (HFCs). These two institutions share about 99.5 percent of total housing finance market of India. Co-operative institutions share the rest of 0.5% of Indian housing finance industry. In the pre-reforms era, the HFCs were prominent in the institutional housing finance market, many of these HFCs being the housing finance subsidiaries of prominent CBs or those promoted by leading developmental institutions. The most prominent HFC continued to be HDFC-the pioneer HFC and also the largest in India, ever since its inception in 1977.

Commercial banks were permitted by the banking regulator RBI to provide onward lending towards individual housing finance in 1999. Accordingly, many CBs entered into the system, thus posing a serious threat to the HFCs which hitherto controlled almost the full market as specialized institutional agencies in housing finance. With the entry of CBs, the competition in the industry has become very intense and the relative prominence of the HFCs gradually met a drastic fall. HFCs were dominating the market till the year 2001-02 putting the CBs behind them. However, from the year 2002-03, the scenario changed and CBs dominated the market keeping the HFCs behind them. Consequently, the market share and profitability of HFCs are growing under threat year after year.

The Role of Government:

The role of the Government of India in recent years has switched from that of a provider of housing units to more of a market facilitator. The Five Years Plans starting from 1951 had assigned housing sector a prominent place in the economy. The National Buildings Organization (NBO) was established in 1954 under the Ministry of Housing and Urban Poverty Alleviation for technology transfer, experimentation, development and dissemination of housing statistics. NBO was further restructured in 1992 and 2006 with the revised mandate keeping in view the current requirements under the National Housing Policy, and various socio-economic and statistical developments connected with housing and building activities. The setting up of Housing and Urban Development Corporation Ltd. (HUDCO) on April 25, 1970 to comprehensively deal with the problems of growing housing shortages, rising number of slums and for fulfilling the pressing needs of the economically weaker section of the society was one of the significant steps in the series of initiatives taken by Government. The National Housing Policy was announced in 1988 which had a long term aim of eradicating houselessness, improving the conditions of the inadequately housed and providing a minimum level of services/amenities to all.

'National Housing bank' was established in 1988 under an Act of the Parliament to function as a principal agency to promote housing finance institutions and to provide financial and other support to such institutions. The National Housing and Habitat Policy, 1998 was formulated after a thorough review of the earlier policy. In 2007 another National Urban Housing and Habitat Policy was formulated in view of the changing socio-economic parameters of the urban areas and growing requirement of shelter and related infrastructure. Consequent to these focused initiatives, supportive government measures like easing regulations and releasing more land for housing purposes have had a positive impact on the growth of housing finance in India. The central and state governments have been offering tax concessions for the housing sector. Several state governments have passed legislation to safeguard the interest of lessors, encouraging construction of properties for rent. In recent years, rationalization of stamp duty and computerization of land records in many states has been initiated. The government is also considering repealing of the Urban Land Ceiling Act in most states across the country.

INSTITUTIONAL FRAMEWORK FOR HOUSING FINANCE IN INDIA:

Traditionally, informal sectors played a major role in housing finance. Housing was considered more as a family affair and private investment. The investment required which was limited and met either from family saving or borrowings from informal sources. With the rapid growth of urbanization and improved

income as a result of economic development since Independence, the government recognized the critical importance of housing finance and need for development of multi-institutional network to meeting the growing investment needs of the housing sector. This section, therefore, focuses on the institutional development for housing finance since Independence.

PUBLIC SECTOR FINANCE:

- **HUDCO (Housing and Urban Development Corporation Limited):** HUDCO is an influential Government of India Enterprise. Its main aim is to fund state governments for infrastructure development and intends to surface as the only organization of its kind for dealing with the needs of shelter and infrastructure development in the human settlements. Since HUDCO entered into the individual housing finance sector, there has been a complete change in the state of affairs. HUDCO provides housing finance for 11.5 per cent and after deductions the interest rates comes to 8.81 per cent. This has lead to the war of interest rates. HUDCO, New Delhi, is the head office followed by its branches all over India
- **LICHFL (Life Insurance Corporation Housing Finance Limited):** LIC Housing Finance Ltd. is one of the leading and oldest home funding organizations, which offers one of the finest services in the trade. It has branches all over India. It offers variety of loans like housing finance for new purchases, re-constructions, renovations, NRI housing finance etc. Some of the schemes that LICHFL offers are the *GrihaShobha*, which is for NRIs, *GrihaSudhar*, where one can apply for a loan for renovations and repairs in existing houses. Green Channel Facility is meant for professionals like practicing doctors, CAs, computer engineers, etc. Lately, LICHFL introduced a new scheme *ApnaChikitsalaya*, which is especially for medical practitioners for renovating, purchasing or extending their clinic, hospital, laboratory, etc. Then it also has the scheme of *SampurnaGriha* for resident Indians.
- **GICHFL (General Insurance Corporation Housing Finance Limited):** GIC Housing Finance Ltd., a company from the house of General Insurance Company is also emerged as a strong housing finance institution in the recent years.

Banks:

Most of the banks throughout India provide housing finance, except a few small branches. The major banks being Bank of Baroda, Bank of India, Bank of Maharashtra, Bank of Punjab, Canara Bank, Cooperative Banks, Citi Bank NA, Corporation Bank, Dena Niwas, HSBC, ICICI Home Finance, IDBI Bank, IndusInd Bank, Lakshmi Vilas Bank, Punjab National Bank, SBI (State Bank of India), UCO Bank, and many others. ICICI and SBI are the leaders. ICICI gives the maximum period of 30 years for the repayment of loans. It offers loans ranging from a minimum of INR 1 million to INR 10 million.

Many banks provide home loans whether commercial banks or financial institutions to the people who want to have a home. Housing Development And Finance Corporation (HDFC) Home Loan, India have been serving the people for a round three decades and providing various housing loan according to their varied needs at attractive and reasonable interest rates. Owing to their wide network of financing, HDFC Housing Loans provides services at your doorstep and helps you find a home as per your requirements. Many banks are providing home loans at cheapest rate to attract consumers towards them. The more customer friendly attitude of these banks, currently offer to consumers cheapest loan over homes. In view of acute housing shortage in the country, and keeping in mind the social – economic role of commercial banks in the present times, the RBI advised banks to encourage the flow of credit for housing finance. The HDFC Bank and Standard Chartered Bank has become the first player in this sector to announce a housing loan for during the past years the housing sector helped by the growing housing finance industry has witnessed significant developments.

State Bank of India (SBI):

The state bank of India was established on 18th July 1955, under the state bank of India act to take over the business of the imperial bank of India. SBI is owned by the government of India and is the largest bank in the India sub-continent. SBI is the second largest bank in the world. SBI has been awarded 'The Most Preferred Home Loan Provider'. SBI home loans give concession on interest rates on *Green Homes* under its environment protection program. SBI offers SBI-optima additional home loans and SBI-Home line special personal loans for existing home loan borrowers who have a repayment record of 3 years, etc. State bank of India housing finance offers loan for construction and renovation of houses at the lowest interest rates.

Private Sector Finance:**HDFC (Housing Development Finance Corporation):**

With the objective of augmentation of housing through the requirement of housing finance, HDFC was established in 1978 with the support of the Industrial Credit and Investment Corporation of India, the International Finance Corporation (IFC) in Washington and the Aga Khan Fund. Today HDFC and Housing finance are synonymous. The maximum loan HDFC offers is 85 per cent of the cost of the property whose repayment is on a monthly basis in equated monthly installments spread over a period of between 5 and 15 years. HDFC was established in with the primary objective of meeting a social need was encouraging home ownership by providing long-term finance to households. Over the last three and a half decades, HDFC has turned the concept of finance for the growing middle class in India into a world-class enterprise with excellent reputation for professionalism, and impeccable service. HDFC offers loan for construction and renovation of houses. A pioneer and leader in housing finance in India, since inception, HDFC has assisted more than 4.02 million customers to own a home of their own, through cumulative housing loan approvals of over Rs.4.63 trillion and disbursements of over Rs.3.74 trillion as at March 31, 2012.

DHFCL (Dewan Housing Finance Corporation Limited):

Dewan Housing Finance Corporation Ltd. is also one of the preferences in private housing finance sector. Since 1984 in the market, today it has 22 branches all over the country. Union Bank of India has obtained an equity involvement in DHFCL's capital composition. It is interesting to note that DHFCL's shares are listed on Mumbai, Delhi and Ahmedabad Stock Exchanges. DHFCL offers a Double Protection Plan in form of 'Free' Accident Risk Cover + Property Insurance to the extent of the loan liability to safeguard the interest of the borrower. It also has a Regressive Payment Scheme for applicants who are due for retirements within 5-10 years and apply jointly with the eligible younger co-applicants.

GHFCL (Global Housing Finance Corporation Limited):

GHFCL a syndicate of reputed builders, incorporated in June 1994, offers Individual Home Loan Scheme and Home Improvement Scheme. Oriental Bank of Commerce as one of the leading nationalized banks also participates in the equity of the company.

BHFL (Birla Home Finance Limited):

BHFL offers Easy Title for registration of the property or land purchased. Easy Upgrade loans for renovation of the existing house, which has been purchased or constructed at least one year ago. The renovation can be in the form of flooring, tiling, plumbing, paint, polish, etc., Easy extend loans for extensions of an existing house, Easy Home loans for outright purchase of a ready built house, Easy Build loans for construction of house on self-acquired or inherited vacant plot of land, and Easy Bridge Loans for purchase of a ready built house, when an individual already owns a property, which would be sold on getting possession of the new one.

CONCLUSIONS:

Indian housing finance sector has experienced unprecedented changes in its structure from its formulation stage. The structure of the Indian housing finance market rapidly changed with the arrival of the commercial banks in the late nineties. Two major types of institutions primarily dominate the formal housing finance system in India. The two major institutions are Commercial Banks (CBs) and Housing Finance Companies (HFCs). These two institutions share about 99.5 percent of total housing finance market of India. Co-operative institutions share the rest of 0.5% of Indian housing finance industry. In the pre-reforms era, the HFCs were prominent in the institutional housing finance market, many of these HFCs being the housing finance subsidiaries of prominent CBs or those promoted by leading developmental institutions. The most prominent HFC continued to be HDFC-the pioneer HFC and also the largest in India, ever since its inception in 1977. HUDCO provides housing finance for 11.5 per cent and after deductions the interest rates comes to 8.81 per cent. LIC Housing Finance offers variety of loans like housing finance for new purchases, re-constructions, renovations, NRI housing finance etc.

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