Housing Finance in India: Challenges and Issues

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Abstract
House is a centre and domestic device for mankind’s moral and core development ever since the dawn of evolution and civilisation. Housing is one of the basic requirements that human beings need. Good housing is a pre-requisite for human development and welfare. It provides shelter, security, amenities and privacy to the human beings for decent living. There are many things that people would find difficult, if not impossible to do without good-quality housing. Housing shortage is a universal phenomenon. Without good housing, people cannot realise their full potential and carry on the life they want to lead. Good housing reflects the general welfare of community, whereas bad housing leads to serious consequences such as diseases, immorality, and juvenile delinquency. Housing is also an investment activity and provides impulsion to economic growth. It has both forward and backward linkages. Because of its forward and backward linkages, even a small initiative in housing will drive multiplier effect in the economy through the generation of employment and demand. Housing finance is not a new concept in finance sector of India. It has developed rapidly during last few decades due to the enthusiastic interest of Government to cut-short the housing problem of the country. Although, present environment of finance sector seems to be suitable for uninterrupted growth of housing finance market, but there are few general problems, which create challenges and issues directly and indirectly. This paper is an attempt to reveal such problems and challenges in India.

Keywords: Housing, Finance, Housing Finance, Challenges and Issues.

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Housing is an imperative engine for expansion as well as success of any economy. It is a centre and domestic device for mankind's moral and core development ever since the dawn of evolution and civilisation. Good housing is a pre-requisite for human development and welfare. It provides shelter, security, amenities and privacy to human beings for decent living. Adequate housing is essential for survival of human beings with dignity. There are many things that people would find difficult to do without good-quality housing. Housing shortage is a universal phenomenon. Without good housing, people cannot realise their full potential and carry on the life they want to lead. Good housing reflects general welfare of community, whereas bad housing leads to serious consequences such as diseases, immorality, and juvenile delinquency. Housing is also an investment activity and provides impulsion to economic growth. Housing investment is a major driver of economic growth and welfare. Housing finance is a broad topic and acts as a bridge to provide finance to seekers and open up the housing market to aspiring house owners. Due to scarcity of funds housing remains just a wish to many people. To boost the investment in housing industry, Government established the housing development finance corporation in 1977. In 1998 the government set up the national housing with the objective of providing housing finance to all sections of society. Housing finance refers to finance for meeting the various needs related to housing such as purchase of land, acquisition of flats, construction of a house, extension of a house, etc.

Review of Literature

Kumar Anand (2016) discussed about the impact of growth and development of housing finance on Indian economy in his research paper. On the basis of different studies he concluded that home loan investment shows impacts on the employment, GDP, productivity and many other important factors of a nation. Construction sector was found to have a significantly higher income and employment multiplier impact than most of other broad sectors of the economy. HFCs are facing more
number of challenges in comparison with commercial banks and HFCs concentrate more on operational efficiency in order to survive. Therefore the housing sector contributes openly to overall invention and production activities of the economy and benefits of shelter and wealth accumulation for households.

Mishra Ashok (2013) studied about basic requirements for acquisition home loan and growth of housing finance in India. According to him due to the increase in population, shift in demographic prototype and going up income of the middle class vis-à-vis the availability stock and shortage of shelter. In order to rectify this mismatch between demand and supply the government encouraged housing finance institution and banks (public and private) for bridging the resource gap. Home loan is becoming a new area of investment. The paper revealed the process of obtaining of home loan by different banks.

Parmar (2012) expressed her views about the condition of women in the field of housing finance. She observed that, due to over and unnecessary rules and regulation females were least interested in investment of funds in housing finance. Literacy rate of women in India is not up to that level so that, they can try to obtain home loans even. She concludes that women in India are completely ignored in this area.

Monk, Tang and Whitehead (2010) studied the social - economic impact of housing in Scottish country. The study exposed various multiplier effects of housing like output multiplier, income multiplier, employment multiplier and GVA multiplier on economy.

Bhalla (2008) examined the financial recital of selected HFCs. The study designed to examine the effect of various selected independent variables on profitability of selected HFCs. The independent variables considered are interest income, interest expenses, non interest income, operating and administrative expenses and employee costs.
Objectives of the Study

- To study about the various challenges and issues of housing finance sector.
- To check out the various possibilities of the growth of housing finance sector.

Research Methodology

The present study is based on secondary data. Secondary data was collected through various research papers, newspapers, journals, websites, books and project reports. It is a descriptive research.

Challenges and Issues for Housing Finance in Rajasthan

The housing finance sector in India is facing various problems in growth and development. There are some natural or general problems which create hurdles in path of smooth growth of this sector such as insufficient infra-structural development, unequal distribution of national capital, cost of acquisition of land, government housing policies etc. The standard of living can be judged by the adequacy of housing but millions of people are still nomadic in country as well as in world, so there is a very big housing problem in the nation and world also. It is well known that the housing problem in India is alarming problem in both rural and the urban areas. The need to have a roof over heads dates back to the time when ancestors first left the shelter of the trees for life on the open areas. They either built a simple shelter or found an unoccupied caves in which people lived. But unfortunately, life today, is more complicated than that. In industrialised urban areas, when it comes to finding somewhere to live, choices are limited to renting a dwelling or buying one, more often than not with the help of a housing loan.

Without a right to housing, many other basic human rights will be compromised including the right to family life and privacy, right to freedom of movement, right to assembly and association, right to health and right to development. Housing is a key good for determining the cost
of living. The acute shortage of housing in urban areas is due to increase in population Ruben Garrido-Yserte et al. (2012). After the vast study of various journals, reports and other articles researcher found that the problems of housing finance is multi-dimensional. It is difficult to describe them in single way so that the problems are classified like: general problems, problem faced by housing finance companies and Problems Faced By Customers

**General Problems:** This category covers various types of issues faced by everyone in various ways. Government is trying to act as facilitator by offering a number of housing schemes for different sections of society, but due to poor administrative control and lack of strong will-power most of the schemes are squeezed only up to the primarily levels and are never attained its ultimate objectives. It covers following issues and areas:

**Role of Government and Its Policies:** The government of Rajasthan is playing very important role in growth of housing finance sector. Government considers housing as a primary segment of development. Lower or middle-income group population is considered to be suffered by prospects of owning a house due to lack of affordability of big amount in present time. At present circumstance, Government 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 and lack of strong will-power most of the schemes are squeezed only up to the primarily levels and are never attained its ultimate objectives.

**Housing Finance Regulatory Authority:** The regulatory body of housing finance sector of India is National Housing Bank, which came into existence in 1988. The origin of National Housing Bank (NHB) was principally as the apex institution of housing finance sector of country to facilitate the development of a sound, healthy and sustainable housing finance system. Since its inception NHB is trying its best towards achieving this goal but could not get desired success. During the period
of study, it was observed that NHB neither has sufficient power and network to regulate entire housing finance sector of country nor has sufficient funds to support the needy housing finance companies. Even most of employees associated with housing finance sector do not know about NHB. One of the major lacunas of NHB’s functioning is that it never took any direct step to protect the interest of housing loan customers and limits itself as a refinancing agency only. Hence, the housing finance sector is not taking any significant advantage of NHB and is keeping itself separated from it.

Distribution of National Capital: The distribution of national capital of country affects the housing finance sector directly. If the capital of the nation is distributed among the population in a rational manner, most of the population of country will be in a position to dream for their own houses and chances of growth of housing finance sector of country will remain higher. Unfortunately, the distribution of capital among population is not justified even after all the efforts of Government. The report of National sample survey, India clarifies that about 36% of country's population lives below poverty line and the further 52% can be categorised as middle-income segment.

Static Culture of the Society: Among Indian society, housing is a lifetime dream of an individual and a newly employed person cannot even image for his own house due to his social and cultural backgrounds. Secondly, the debt is considered as an evil in Indian society and 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 and ultimately hurts the housing finance market of country remarkably.

Problems of Housing Finance Companies: As already discussed that debt is considered as evil in Indian society and this type of thinking creates many problems and hurdles in growth and development of proper organised housing finance market. Following are the few problems of housing finance companies:
**Cut-throat competition:** Home loan is considered, as the safe investment by Financial Institutions and every finance company wants to confine more and more share of this segment. Therefore, a severe competition is found in housing finance market. The competition affects optimistically to the housing finance sector up to a reasonable level, but after that, when lenders have to provide loans below their cost of funds, it converts into a threat for the entire housing finance industry. As far as Indian housing financing industry is concerned, there is a fierce competition at present. All housing finance companies are using all possible means to attract home buyers. Alternative choices between floating and fixed rates are being offered. The housing loan amount has gone up to 110 percent of property value to meet out the cost of legal expenses. Most of the Housing Finance Agencies are exempting processing charges to survive in the market. This scenario of housing finance market is not good for the housing finance industry. Even RBI has recently expressed concern over competition in home loan financing and is thinking of making it mandatory for all Housing Finance Agencies to insist on a security margin.

**Slow Growth of Housing Finance Agencies:** For last few decades, a huge number of financial institutions, banks and co-operative societies are incessantly entering in the housing finance market of India because Indian Government was promoting housing development activities and willing to provide all possible aid to the financers, developers and customers. Housing finance was recognised as almost 100% secured investment. It expresses the increasing importance of housing finance sector but creating a disturbed environment in housing finances market. The main reason of this is that most of new entrants of housing finance sector do not have required experience, sufficient infrastructure and adequate funds. These Housing Finance Agencies are not sure about their policies and are creating confusion among the mind of prospective home loan buyers by introducing an ambiguous housing loan plans.
Lack of Long-term Fund: Housing finance is a long-term investment. It is very difficult for a housing company to assemble a huge amount of funds for long-term investment. As a result, most of the housing finance companies generate their funds from short-term savings and current accounts of individuals and deploy these funds in long-term housing loans.

Increasing Burden of Nonperforming Assets: Recovery is a big issue in front of home loan. After liberalisation in banking reforms, the availability and accessibility of loan becomes easy for the seekers. But the repayment of loan and recovery becomes a difficult task for agencies. Recovery becomes a new burden for the agencies.

Time Taking and Typical Process: Mortgage and foreclosure laws of the country are not well defined and the Indian courts always have a lenient attitude in favor of borrower on sympathetic grounds. On the other hand, prime problems of housing financing agencies of the country is the cumbersome and time taking process of enforcing a mortgage in the event of default in payment of loan instalment made by the borrowers. It results in highly conformist lending practices and underwriting norms adopted by agencies extending financial aid for housing.

Problems Faced by Customers: As expressed in previous point that the process of mortgage and loan is very cumbersome and conformist. It also creates many problems for customers also. Some of the important problems are discussed below:

Lack of adequate and reliable information: The customers in the present days talks about the housing finance, but does not find him able to make proper comparative analysis among various housing financing companies. Generally discussion limits up to the interest rates of housing finance and monthly instalment only, no one aware about the technical details of home loan. Incredibly like other sectors of finance i.e. banking, insurance, stock market, there is no specific magazine and journals of
housing finance available in market through which statistical data and facts of housing finance market could be revealed in a systematic way. It's not only a big problem for housing finance seekers, but also shows the disability of housing finance companies in launching customer's awareness events properly.

*Hidden costs or terms and conditions:* As discussed in earlier point, a general housing loan customer does not has sufficient knowledge of housing loan and selects a housing finance company randomly. But after taking housing loans when a borrower encounters with the other hidden costs of housing loan such as processing fees and file charges, heavy penalty at any delay in payment of loan instalment, penalty on premature payment of loan etc. he finds himself embarrassed and helpless at that stage. No concept of after sales-service is found in housing finance sector like the insurance sector. This scenario is neither good for housing finance customers not for the future of housing finance industry.

Except all the above given problems a customer faces many more issues likes lack of flexibility in payments, availability of insufficient amount, lack of professional builders, and many more. After the study researcher can conclude that the major problems of housing finance sector of India are shortage of funds, inadequate mortgage and securitisation laws, unhealthy competition among housing finance agencies and traditional thinking of Indians etc. besides all such issues Housing finance market is having infinite growth potential.

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