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Challenges for the housing finance sector in India: A critical review

Dr. Abhishek Kumar Singh

Abstract

The home is the basic unit of the society. Home provides a platform to the family and the family is the most important social institution, which leaves its imprint on an individual for whole life. As a human being, an individual needs his own space and privacy, which can be provided by the ownership of a house. Thus, housing deserves significant attention in the context of developing policies and strategies for human development. But still the majority of human populace lives in slums, shanties and temporary shabby shelters in rural areas. The shortage of housing is a big impediment in the healthy development of an individual and consequently the society, and the nation.

A developing nation like India has to focus more on housing sector to cater to the housing needs of burgeoning population and to accelerate the economic growth. This huge population will certainly pose a huge demand for housing. To provide homes for this huge population, the only objective of the professionals like planners, engineers and policy makers is to increase the housing stock of our country by satisfying all the previous shortages. In this paper the issues and challenges of the Housing Finance sector are being presented and how the goal of affordable housing for all will be achieved is analyzed by the assessment of present and future housing shortage.

Keywords: Challenges, housing sector, human being, population

Introduction

A large portion of our population is still lacking proper housing facility. The housing problem in India is an upsetting problem both in the rural and urban areas. Housing is an important component and a measure of socio-economic status of the people. It is regarded as a critical sector in terms of policy initiatives and interventions. One of the main reasons of the problem of housing shortage is its size of population. It is said that one among every six persons in the world is an Indian. India stands second among the world's largely populated countries.

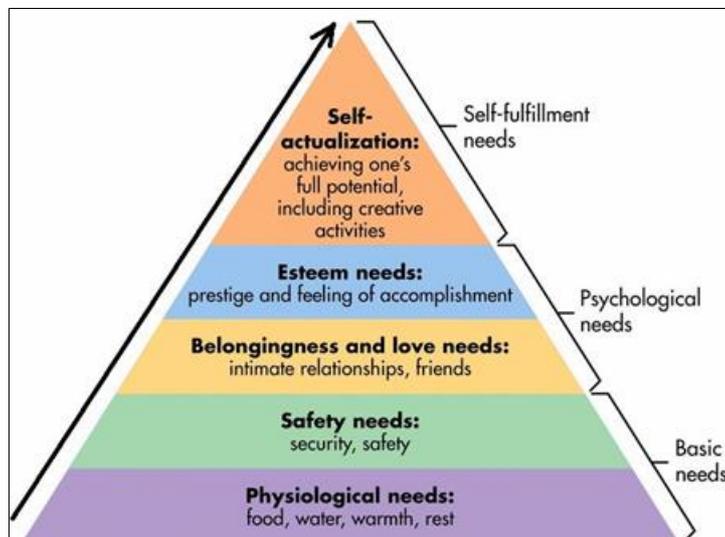


Fig 1: Abraham Maslow's human need pyramid

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History of home loan

Home loans came into widespread use in the United States in the boom years of the late 1800s. Since the average person usually cannot afford to pay cash for something as expensive as a home, lenders began offering loans for the difference between the purchase price of a home and the cash down payment supplied by the buyer. These loans were interest-only loans of between five and 10 years that were due in full at the end of the loan term. Homeowners would refinance the loan at the end of each term or save up enough cash to pay off the loan in the meantime. The Great Depression and its resulting foreclosures demanded a move to the modern amortized mortgage, which configures payments into both principal and interest portions. These 15- to 30-year loans pay off the home by the end of the loan term.

Review of Literature

Munjee *et al.*, (1990) ^[7] opined that credit flows into the housing sector originates therefore from formal or informal sector like, budgetary allocations, of central and state governments, financial institutions like the LIC, Unit Trust of India, Commercial Banks, provident funds and Public Sector Institutions such as HUDCO.

Singh, et.al, (2006) ^[8] in his article described the housing sector by introducing various housing loan schemes for rural and urban population. The first attempt in this regard was the National Housing Policy (NHP), which was introduced in 1988.

The National Housing Bank (NHB) was set up in 1988 as an apex institution for housing finance and a wholly-owned subsidiary of Reserve Bank of India (RBI). The main objective of the bank is to promote and establish the housing financial institutions in the country as well as to provide refinance facilities to housing finance corporations and scheduled commercial banks.

Anand Kumar T.S and others (2008) ^[9], in their paper they examined the practical guidance to MFIs adopting the housing programme in addition to the existing line of micro-finance services and inputs about any market study, profiling the customers, product design, pricing of the product, affordability of the clients, income assessment, loan assessment, operational procedures, risk coping mechanisms and technical backup guidance. They found that MFIs should also ensure that housing micro-finance suits their strategy from institutional and financial perspectives.

Bandyopadhyay Arindam and Saha Asish (2011) ^[10], in their article studied they focused that the importance of borrower-specific characteristics as well as local situation factors in determining the demand prospect as well as the risk of credit loss on residential housing loan repayment behavior in India. They used 13,487 housing loan accounts (sanctioned from 1993-2007) data from Banks and Housing Finance Cos (HFCs) in India. This paper made an attempt to find out the crucial factors that drive demand for housing and its correlation with borrower characteristics by using a panel regression method and logistic regression.

Joydip Dasgupta (2015) ^[11], in his paper he focused on Interest Rate Risk Management of HDFC which started off

in 1977 as a new mortgage bank and operated like S&Ls in the first few years and raised retail deposits. This did not create much problem for the entity in the administered interest rate regime. The study offered a new paradigm shift in the financing pattern of HDFC for development of housing industry.

The author strongly felt that there is a need for extending liberal rate of interest to housing industry. The author strongly felt that there is a need for extending liberal rate of interest to housing industry.

Objectives of the Study

The objectives of this research paper are: -

- To understand the concept of home loans
- To analyze the development of the Housing Finance sector in India
- Identification of the issues and problems regarding it.
- Suggest solutions for a better future.

Housing Scenario in India

After the Second World War, there was a wave of national Independence movement throughout the world. The newly independent countries had a very strong desire to change their own fates to improve their economic and living conditions. As a developing nation India after independence gave maximum priority to agriculture and industries. The industrial sector is the sector which has the ability to generate maximum revenue and it will also attract a huge amount of foreign currency reserve for the country.

On the other hand, it requires a huge labour supply for its growth. The Urban population is not at all sufficient for this large requirement. So due to this reason people from rural areas migrated towards the industrial areas. But these rural populations were having very low levels of skill and education which forced them to opt for low wage works. Due to less availability of money in hand, these people barely satisfy their basic needs of food and clothing and having a proper shelter was like a dream for them. In this way the problems of informal settlements like slums and squatters originated in urban areas.

The housing shortage is defined as the gap between the total population of the country and number of housing stock available for them. If we look at the housing shortage or surplus in India in different time periods then we can able to assess the gravity of this housing shortage problem.

Table 1: Housing shortage in India

Year	Housing Shortage or Surplus (Million)
1901	+1.8
1941	-1.7
1971	-14.6
1981	-23.3
1991	-22.9
1996	-13.66
2001	-19.4
2007	-24.71
2012	-18.78
2017	-20

Source: IBEF Report

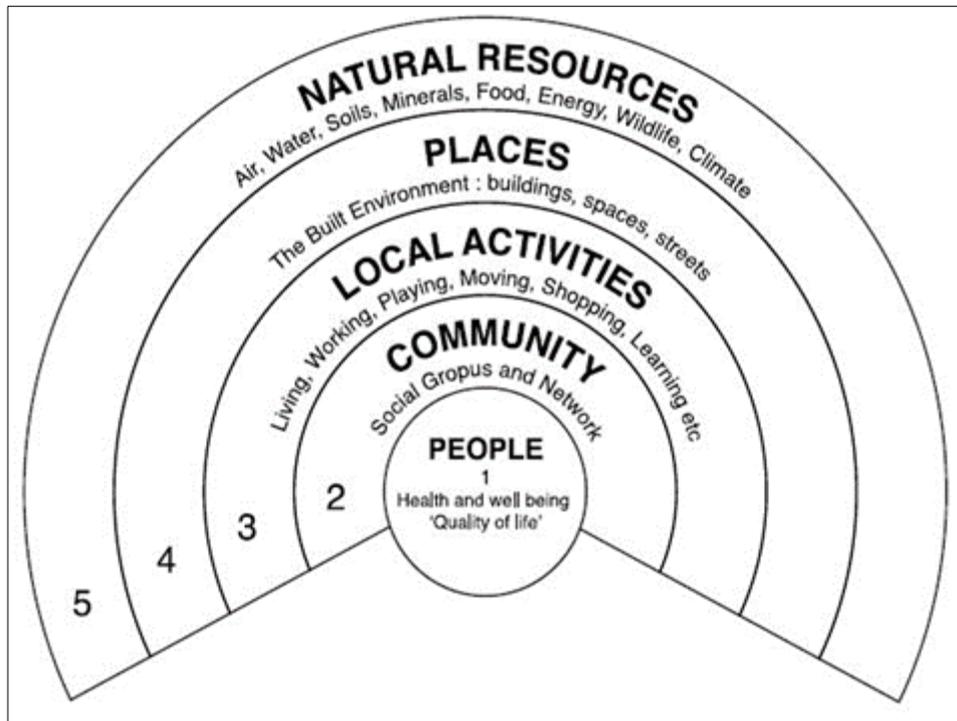


Fig 2: Ecosystem model of neighbourhood

Housing finance sector-challenges

The recent higher economic growth and rapid urbanization coupled with the government's enabling policy initiatives have also led to the emergence of a booming housing market in India. Since housing is capital intensive construction activity, it requires huge investment. Along with the fast growth of the housing finance sector there are some problems which are emerging out, require immediate solutions otherwise these will create a major threat to this sector in the future.

- **Lack of Flexibility in Repayment Process:** As we stated it before, that LIG and EWS people of urban as well as of rural areas have not benefited desirably through the housing loans because their income is not fixed; in some months they earn sufficient amounts and in other months they may not. So, repaying a fixed amount in each month for the loan is not possible for them, if this process bears the characteristic of Flexibility, then these people will be benefited.
- **Lack of Transparency and Accessibility in Loans from Informal Sectors:** Due to the previous reasons the poor people of slums in urban areas and in villages as well are forced to take help from the local money lenders who provide them loans with a very high rate of interest. In the post-independence period this has become a grave issue which is raising the problem of debt trap.
- **Lack Accessibility for the LIG and EWS people:** As it is discussed earlier that the supply of housing is majorly concentrated to MIG and HIG people who have an authentic record of income. But for the LIG and EWS people banks are not that much liberal in providing loans.
- **More Dependency towards Collateral Security:** To avoid bad loans the banks are getting more and more dependent on collateral security in terms of mortgage of property. But poor people of urban areas who do not

have their own property to provide as a mortgage are the worst sufferers.

- **Non-Repayment of Loans:** Recently in the year 2018 two well-known HFCs named as DHFL and India Bulls Housing Finance Limited have faced a huge loss which forced them to sell a large amount of their market share. The problem arises because these companies are giving long term loans and raising money through short term gains. When loans are provided for long term the chances of generation of Non-Performing Assets also become high. Non-Performing Assets (NPA) are those bad loans in which repayment has not been done in a continuous manner. If a loan has not received repayment for a time being then after a certain period of time it will convert into NPA and the HFCs are given the authority by the Government to acquire the properties of the borrower and sell them to satisfy the loss, under the provision of SARFAESI Act.

Changes of government policies towards housing sector

From the year 1950 the focus of the central government had started to shift towards the housing sector. If we distinguish the government's role in this sector in different phases of time, then we can find out that after 1950 to 1990 the role of the government was to provide people with housing; after introduction of national housing policy in the year 1988 the government role was changed from a 'provider' to an 'enabler' and after 2010 onwards it is facilitating the process of housing production, delivery and investment. The major steps that were taken in that time were the formation of HUDCO, HDFC and National Housing Bank (NHB). During this time period the Government had figured out some problems in the process of housing construction and delivery. These are: -

- Lack of housing affordability.
- Unavailability of advanced and time-consuming technology and system.
- Problems in land allocation.

- Requirement of institutional and policy framework.
- Lack of constant supply of building materials.
- Unavailability of skilled labor.

After getting familiar with these problems the government has improvised its approach in providing the houses with basic services without dismantling the existing structure or without resetting the Slums to the other place and by creating the opportunities of income generation. The major step had taken in this phase was introduction of Jawaharlal Nehru National Urban Renewal Mission (JNNURM) which had become a flagship programme in urban poverty alleviation from the year 2005.

In the year 2009 Rajiv Awas Yojana (RAY) was declared by the government with the objective to achieve Slum Free India. The major difference between JNNURM and RAY is that, in case of JNNURM the people who have the ownership of their land got benefited but RAY was proposed for those people who did not have ownership of the land. RAY for the first time proposed a curative as well as a preventive approach to restrict further formation of slum and quarter settlement. It directed each and every Urban Local Body (ULB) to prepare a Slum Free City Plan which contained all details of existing slums in the city, housing typologies, structural quality, land tenure and quality and quantity of basic services provided to them. With the plan report any ULB could propose a slum redevelopment plan for the migrating people and the provision for rental housing was introduced for the first time for these people.

After 2010 onwards governments' focus got shifted from 'enabler' to 'facilitator'. During this phase government is not getting directly involved in the process of housing construction and delivery rather than the government allocating the fund in terms of loans to the individual and the Real Estate Developers with the provision of Interest Subsidy, Mortgage Guarantee, Regularization of housing finance market etc. On the other hand, the government has also got involved in submission of new technology which will reduce the time of housing construction up to 1 to 1.5 years.

In the year 2014-15 government announced the most important scheme Pradhan Mantri Awas Yojana (PMAY) with the objective of achieving Housing for All by 2022. All the preventive approaches of RAY are merged in PMAY and the government gives more focus on providing rental housing by the formation of Draft Rental Housing Policy, which discusses the type of migrating population, their requirement for housing and what should be planners' strategy to satisfy the demand of these transitional people.

Suggestions

- The whole Housing Finance Sector exists to provide people with funds for purchasing, constructing of new houses. So, the only solution that will be possible is through the generation of more employment which will increase the overall income. That is why the Government of India is giving more and more importance to the skill development programs presently. And the Government strategy is to raise the share of the Industrial sector in the GDP of the nation.
- Introduction of an adequate population control policy for the nation. If the Population will get increased in a predetermined rate then the estimation of future housing

demand will become easier and housing stock generation and delivery process become steady through this sustainable use of resources can also be achieved.

- The formal procedure of Bank Loans is quite critical for a person who is illiterate; for them the whole process of bank loan should be made user friendly which indirectly encourages them to take loans.
- On the contrary, diverse loan options should be available for them and the repayment procedure should be made flexible so that these people can pay the loan amount freely within the given time period.
- Imposition of Strict verification rules for checking the credentials of borrowers, who take a large amount of loan, to avoid the cases of frauds, and make the collateral security mandatory for them.
- The problem of Asset Liability Mismatch can be resolved by Securitization of the Market to a large extent and by maximizing the saving deposit of the bank. But saving deposit maximization will solve the problem on a temporary basis and Securitization will provide a permanent solution. But on the other hand, it will discourage poor people from taking loans. So, a mixed strategy should be adopted by the HFCs and Banks.
- Reduction of Stamp Duty and making the Stamp Duties uniform for every state. Also, the Legal Land Acquisition process should be made easier and less time consuming otherwise almost 30 to 45% in cost of house

Conclusion

Housing finance companies typically lend at one-two percentage points more than banks, since the latter are among their source of funds. That edge is persuading many customers shift from housing finance companies to banks. The Indian housing finance market cannot be looked at independently of the government's role in the overall financial sector, which is nowadays characterized by a process of liberalization.

Reform of the housing finance schemes for middle- and low-income households should take place simultaneously. If emphasis is put on the development of housing finance schemes for the poor and schemes for the middle-income households are neglected, middle-class groups will probably appropriate the schemes meant for the poor. Instead of interest subsidies on housing loans for the poor, one-time grants for households may be a better way to help them.

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