

A STUDY ON PROBLEMS FACED BY THE HOUSING FINANCE INSTITUTIONS AND THE BORROWERS

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Introduction

The increasing demand for housing is increasing the demand for housing finance too. There is an exponential growth in housing finance market. This has prompted many aggressive new players to enter the housing finance market. The housing finance is considered to be a relatively low risk form of advance. This prompted commercial banks, public sector and private sector housing finance companies to become active in housing finance. These developments have fuelled in an unforeseen competition among the various players and triggered an interest rate war in the housing finance market.

The ultimate beneficiary in this tough competition is the home finance seekers. The players in the housing finance market, due to tough competition, started offering hefty concessions to the home finance seekers. The various players are competing with one another to provide most value added and efficient service to the customers. The housing finance market is virtually dominated by the customer with various home loan options. The housing finance providers should express integrity, reputation for quality and time lines of delivery to meet this competitive environment. The best advertisement for them is the mouth-to-mouth word through the satisfied customers for building a good corporate image. The customer satisfaction is the best marketing strategy used to withstand in the competitive market for any housing finance institution. This can be achieved by maintaining quality, human approach, courtesy of the personnel and the available infrastructure facilities. The familiarity with various laws, environmental constraints, its competitors and their charges etc. will also help the housing finance providers to compete in the market. Above all, the housing finance institution should be clear about its potential customers and their requirements.

Problems Faced by The Selected Housing Finance Institutions

Traditionally housing finance was dominated by a handful of private sector institutions. These housing finance companies commanded 70 percent market share in FY1999, which has subsequently fallen to 50 percent in FY 2004 as a direct result of policy changes that permitted the entry of banks into this industry. Banks now control 40% of this market and continue to show explosive growth.

The housing finance market with a turnover of Rs.75,000 crore a year has extended with tremendous future prospects. However the path of the players engaged in the housing business is not that easy and has been strewn with many inhibiting throws and potholes. Discussion in this part on "problems faced by institutions" is based on the responses of the officials (5 in each institution).

Table -1: Problem Faced by the Institutions

Factors	Institutions							
	LIC-HFL N=5		SBI N=5		HDFC N=5		H.CO-OPS N=5	
	No	%	No	%	No	%	No	%
1.Variation in standards	2	40	2	40	-	-	3	60
2.Absence of proper title deed	4	80	3	60	3	60	4	80
3.Interest rate fluctuations	3	60	3	60	4	80	4	80
4.Mismatch of Period of lending to period of deposits	1	20	3	60	4	80	2	40
5.System of interest calculation	1	20	2	40	2	40	3	60
6.Pre-closure risk	2	40	3	60	-	-	3	60

7.Over Dues	1	20	1	20	2	40	5	100
8.Liquidity norms	2	40	-	-	3	60	1	20
9.Increased stamp duty	2	40	3	60	2	40	3	60
10.Increased competition	2	40	2	40	2	40	4	80

*Multiple Answers

Source:primary Data collected from officials of Housing Finance Institutions

Variation in Standards

The housing sector witnessed varying standards and lending practices among the lending community, be it in origination and documentation or monitoring and supervision. Variation in standards across the industry imposes threats. HDFC did not face this problem. But it was mentioned as a considerable problem in H.Co.ops.

Absence of Proper Title Deed

High majority of the officials of the housing finance institution had stated that the absence of proper title deeds has been the major hurdle ineffectively serving the customers. Officials added that the low credit disbursal to the poor and the rural population has been constrained due to non-availability of clear title and difficulties in assessing their paying capabilities of the poor with irregular income pattern, which has resulted in higher credit risks.

Interest Rate Fluctuations

The interest rates on housing loans had been changing. It was in the range of 14 percent to 17 percent during the year 1999-2000. The same had decreased during 2009-10 with the range of 7.75 percent to 9.50 percent and then increased during 2010-11 to the range of 10.50 to 14 percent. The deterioration in interest rates affects the profit of the institution. The officials stated that the borrowers at the time of loaning process opt for floating rate of interest mostly due to lack of awareness on the system. Later when the rates get increased and EMIs changed they argue and litigate for such increases in EMI.

Mis Match of 'Period of Lending' to 'Period of Deposits'

Most of the officials of SBI and HDFC stated that one of the biggest risks was mismatch of period of lending and period of deposits. Funding of long term loans with short term deposits leads to mismatch between such assets and liabilities. This problem was not much with LICHFL and H.Co.ops who had less or no deposits.

System of Interest Calculation

The Co-operative housing societies follow the fixed rate of interest system. LICHFL followed two methods; for first three years the borrower can opt for fixed rates and consequently switch over to floating system or he can opt for floating rates from the beginning. The SBI follows the floating rates only. The HDFC provides the option of fixed or floating system from the beginning. The borrowers at the beginning are with a rush in getting the loan and busy with submitting the required documents. They do not bother much with the system of interest calculation—fixed or floating. They sign for something in this regard and question later on when EMIs increased due to increase in rates or same EMIs even when interest rates are decreased.

Pre-Closure Risk

The intense price competition between HFIs has in recent years led to pre-closures of loans from one agency and take so verby the other especially by private housing finance agencies. The borrowers get loans by completing all formalities coupled with effort of the employees of the agency. Hence the staffs feel that apart from losing to customer, all their efforts become waste while a loan is pre-closed. However they agreed that such pre-closures did not affect the profitability of the organization since pre-closure fees of about 2% on pending principal amounts are collected from the borrower. However this problem was not faced by HDFC.

Over Dues

All the staff of Housing Co-operatives interviewed stated that over dues was a great problem which almost rendered their lending operations. ECS and post dated cheques of repayment as followed in other 3 agencies are not followed in these

Housing Co-operatives and the dues were collected across the counters which has some intrinsic deficiencies. More over, the Govt. policy on waiver of Co-operative loans also affected there payment culture of the borrowers. Hence, over dues became them a in problem in their operation.

Liquidity Norms

All the selected housing finance officials except SBI had felt in the violate interest rate regime they are promote to liquidity risk. As far as liquidity is concerned the HFIs have invested only a small percentage of their deposits in approved securities/deposits. The HFIs Have been required to interest 12.5% of their publicde posits is approved securities/deposits with NHB or invests in the bonds of NHB. The HFIs have been allowed to accept demand deposits without any prescription of cost reserve ratio and the statutory reserve requirements, which could lead towards liquidity risk during their heavy demand operations.

Increased Stamp Duty

Housing attracts stamp duty on mortgage registration that varies between 8 and 20 percent of the purchase value. Many officials of HFIs felt that imposition of stamp duty one quit able mortgages has acted as a deterrent factor in delivering housing finance.

Increased Competition

Before globalization there were only small numbers of agencies involved in housing finance. After globalization number of agencies like private banks and housing institution had involved in housing finance. They stave incapturing of market share by providing economy services to customers like low interest rates, less processing and administrative fees and provide legal and other value addition services and make the housing finance market a stiff one.

While the private housing finance institutions are required to abide by the guidelines of the NHB, the general financial institutions, which include the commercial banks, follow the guidelines set by the RBI. Today, both these sections are competing with each other for the same housing pie but their functioning and lending practices seem to bear no similarity.

Suggestions by Officials

The official of the housing financial institutions suggested the following for a smooth issue of housing loans.

1. Adoption of uniform practice by the housing finance institution relating to matters like appraisal and documentation, prepayment of housing loans. Conversion of fixed rate loans into floating rate loans etc.
2. Greater transparency in dealings with the borrowers to enable them to exercise informed choices about products and lending institutions.
3. The eligibility for mortgages and extend mortgage repayment period upto 25 years.
4. In order to address the issue of rising incidence of frauds in housing finance, section 20 of the SARFAESU Act introduced the provisions of setting up a central registry to provide a statutory hacking to the security interest created in favour of banks and financial institutions and enabling them to claim priority over their claimants while enforcing the securities.
5. New techniques and schemes should be put in place for a proper asset liability management and explain the generally followed ALM techniques to counter an issue that could threaten the very existence of an institution.
6. The RBI has permitted banks to grant loans for housing schemes upto certain limits from their own resources, maximum loan amount and margins security, term of the loan etc., the HFIs need certain autonomy in this respect.
7. The borrowers must be made aware of the terms and conditions. A liason officer in this respect may be appointed.

Problems Faced by Borrowers

Getting a home loan is a lengthy procedure. However simple it might look in the HFIs advertisement, the fact remains that there are a lot of hiccups in the entire process. Here is the most common problems and opinions of the sample borrowers availing housing loan from the Housing Finance Institutions (HFIs).

Table – 2: Problems Faced by the Borrowers

Institutions Details	LIC- HFLN=125		SBI N=125		HDFC N=125		H-CO.OPS N=125		Total N=500	
	No	%	No	%	No	%	No	%	No	%

Problem Faced/Not Faced										
1.Faced	65	45.6	52	41.6	68	54.4	75	60	260	52
2.Not faced	60	54.4	73	58.4	57	45.6	50	40	240	48
Problemfaced N=260		N=65		N=52		N=68		N=75		
	No	%	No	%	No	%	No	%	No	%
1.Delay in processing and	26	40	10	19	38	55	33	44	107	41
2.Delays in documents	20	30	15	28	29	42	22	29	86	33
3.Surety and Security	7	10	13	20	12	17	5	6	37	14
4.Insufficient loan	25	38	26	50	9	13	68	90	128	49
5.Rules and	13	20	10	19	15	22	27	36	65	25
6.Indifferent attitude of employees	6	9	6	11	4	6	12-	16	28	11
7.Higher processing fees	21	32	-	-	24	35	-	-	45	17
8.no information on change in EMI due to change in interest rates	10	61	32	61	12	17	-	-	84	32

(Multiple replies were considered)

Before or after receiving the loan the borrowers may face certain problems with the institutions. Of the sample borrowers, 52 percent were of the opinion that they were facing the problems with the agency. As high as 48 percent of the Respondents felt that there was no problem in availing with an agency. It is interesting to note that about 60 percent of the borrowers of SBIHL stated that they faced no problem in getting the loan. On the contrary majority of the Housing Co-operatives borrowers stated that they faced problems.

The borrower Respondents who faced problems were asked to spell out the specific problems. Such problems as given in the above table are discussed here under.

Delay Insanctioned And Disbursement of Loans

About 40 percent of the Respondents faced the problem. This problem was faced by a limited borrowers of SBI. However 44 percent of borrowers of housing Co-operatives faced this problem. This problem was also significant with LICHFL and HDFC.

Problem Relating To Documents of Loan

25 percent of the Respondents faced the problem of arranging the documents required, getting NOC's certificates etc. Causing delays and wastage of time. The problem was comparatively less with the borrowers of H.Co.ops.

Problems of Surety & Security

Another great hurdle that the sample borrowers faced at the times of receiving the loans from select institutions was adhering to surety & security terms. Surety & security has two aspects namely: i) Title of the property, ii) guarantee. It is clear that 14 percent of the borrowers faced the problems of surety & security of the select HFIs, the problem of surety & security was high in SBI and HDFC followed LIC. It is becoming a hurdle on the part of the customers to arrange that much of surety & guarantee to get the house loan.

Inadequate Loan

Insufficient loan amount was another problem faced by the borrowers from the HFIs. This problem is different from borrower to borrower and from one institution to another. The above tables show the details of borrowers facing the problem of insufficient loan amount. It is evident that out of the total sample only 11 percent faced this problem. More number of

borrowers from Housing Co-operatives has suffered within sufficient loan amount when compared too ther institutions.The borrowers of HDFC did not face this problem.

Rules and Regulations:Normally the housing finance institutions follow some rules and regulations to grant housing finance.These rules and regulations do not help to finance the total cost of the project ,repayment schedules,not considering the future/otherincome.Itisevidentthatamong260sampleborrower,only12 percent of borrowers in the select HFIs do suffer with the problem of rules and regulations,5 percent of borrowers are from LICHFL and 7percent of borrowers from HDFC. None of the SBI borrowers faced this problem.

Indifferent Attitude of Employees: The attitude of employees varies from one institution to another It is clear that the only 5 percent of borrower faced this problem.Comparatively,the problem was more with the SBI borrowers.

Higher Processing Fees: Higher processing fees above 35 percent of the Respondents of LIC HFL and HDFC stated that the processing fees collected were high.

Information on EMI Changes

Other significant problems spelled out by many beneficiaries were that the HFIs did not inform about EMI changes due to change in interest rates.

Suggestion To Overcome The Problems As Stated By Borrowers

Table - 3Suggestion to Overcome the Problems of Borrowers

S.no	suggestions	No:125		No:125		No:125		No:125		No:500	
		No	%	No	%	No	%	No	%	No	%
1	Timely and adequate issue of loan	25	20	32	25	20	16	47	37	124	25
2	Clear explanation about terms and condition	30	24	26	20	15	12	26	21	97	17
3	Pleasing behaviour of the employees	15	12	12	10	36	29	21	17	84	17
4	Lesser penalty rate	29	23	37	29	10	8	32	25	108	21
5	Easing theloan formalities	45	36	42	33	15	12	27	21	129	26
6	Reduce rateof interest	27	21	29	23	22	17	52	42	130	26

Timely and adequate issue of loan,clear explanation on the terms and conditions,pleasing behaviour of the employees,lesse rpenalty rates,easing the loan formalities ,reduce rate of interest were the suggestions mde by majority of the borrowers.

Conclusion

The biggest segment that is targeted by all housing finance institutions is the middle class who contributes a big numbers in this country with the drop in the interest rates and with promises of further drop.However,variation instandards across the industry imposes threats.High majority,of the official of the housing finance institution had stated that the absence of proper title deeds has been the major hurdle in effectively serving the customers. Borrowers also faced major problems such as delay in processing and loan disbursed,delay in documents submission, surety and security,in sufficient loan amount, rules and regulations, in different attitude of employees,high processing fees and no information on change in EMI due to change in interest rates.

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