
PROBLEMS OF HOUSING FINANCE INSTITUTIONS IN TIURPATI : A COMPARATIVE STUDY

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ABSTRACT

Housing fiancé covers wide spectrum of activities. Personal savings contribute only a portion of the cost of housing. The balance has to be necessarily provided by long term loans, with repayment schedule ranging from 10 to 20 years. The entire investment in housing gets impounded in the form of immovable physical asset, without generating any return except when a house is let out. Even when the house is let out, the rent received thereon does not give sufficient return on investment made. Usually, rent cannot match even 50 percent of the interest burden on the housing investment. Hence, the saying 'fools build houses and wise men live in them'. So, repayment of house loan is usually made out of regular source of income like salary, which is the main source for meeting family expenses on food, education and other expenses. This necessitates housing loan to be repaid in small installments spread over longer period of times based on affordability. Interest forms major portion of regular installments of housing loans. In the absence of sufficient savings, any house builder is compelled to raise long term loans to complete the construction programme. The borrowers face various problems with HFIs in respect of sanctioning, disbursing and recovering the loans. The quantum of housing loans sanctioned has been two folds higher in LICHFL than in HDFC. The expenditure on rent, legal expenses and miscellaneous expenses are rather very high in HDFC compared to LICHFL. But, the recovery percentage in HDFC has been relatively better than LICHFL.

Key Words: Housing- Finance-LICHFL-HDFC.

1.0 INTRODUCTION

Housing fiancé covers wide spectrum of activities. Personal savings contribute only a portion of the cost of housing. The balance has to be necessarily provided by long term loans, with repayment schedule ranging from 10 to 20 years. The entire investment in housing gets impounded in the form of immovable physical asset, without generating any return except when a house is let out. Even when the house is let out, the rent received thereon does not give sufficient return on investment made. Usually, rent cannot match even 50 percent of the interest burden on the housing investment. Hence, the saying 'fools build houses and wise men live in them'. So, repayment of house loan is usually made out of regular source of income like salary, which is the main source for meeting family expenses on food, education and other expenses. This necessitates housing loan to be repaid in small installments spread over longer period of times based on affordability. Interest forms major portion of regular installments of housing loans. In the absence of sufficient savings, any house builder is compelled to raise long term loans to complete the construction programme.

[This study deals with various problems faced by the select HFIs in respect of sanctioning, disbursing and recovering the loans from the borrowers. The relevant data and information were collected through interviews and the schedules administered to sample HFIs.

2.0 OBJECTIVE OF THE STUDY

The following objective has been specifically set for the study:

- to detect the problems of select housing finance institutions.

3.0 HYPOTHESIS

The following Hypothesis has been formulated for the present study:

Ho: "There are no significant differences in the housing finance system between the sample HFIs".

4.0 STUDY PERIOD

In order to examine the loaning process and recovery performance of HFIs and process of availing and repayment of loans by borrowers, sample borrowers were selected with reference to the period from 2010-11 to 2015-16.

5.0 SAMPLE DESIGN

The universe for the study consists of 10 HFIs operating in pilgrim town Tirupati. Of these, 4 belong to public sector and 6 belong to private sector. The size of operations of the Life Insurance Corporation Housing Finance Limited (LICHFL), a public sector institution and the Housing Development Finance Corporation (HDFC), a private sector institution are significant in Tirupati town as against the other HFIs. Hence, the study is confined to the branches of these two housing finance institutions in Tirupati.

The number of borrowers were around 1500 and 750 respectively in LICHFL and HDFC branches of Tirupati. A sample of 20 per cent borrowers from these two HFIs has been selected randomly. Accordingly, 300 and 150 respondents from LICHFL and HDFC respectively have been chosen for detailed study. Thus, the sample constitutes 450 respondents from these two HFIs.

6.0 SOURCES OF DATA

Data for the study have been culled out from both primary and secondary sources. The primary data relating to housing finance institutions have been collected by canvassing a schedule among the officials of the branch offices of LICHFL and HDFC. The primary data pertaining to sample borrowers have been collected by administering a schedule.

7.0 PROBLEMS OF THE SELECT HFIS

The lenders too confront several problems like borrowers. Hence the problems of the select HFIs, viz. LICHFL and HDFC are examined to measure the intensity of their problems. The problems generally faced by the HFIs are annual demand for housing loans, gap between sanctions and disbursements, administrative expenditure, identifying accurate authenticity of title deeds, recovery of installments and recovery of non-performing assets. The information concerning these variables have been elicited from the managers and personnel of the two select HFIs and analyzed.

7.1 Annual Demand for Housing Loans

Of late, the HFIs are going around the customers since housing finance market transformed into a buyers' market. There is fixed limit in both the HFIs for the loans to be sanctioned annually. As per terms and conditions, housing loans are sanctioned to all the eligible applicants. In general, applications are turned down basing on technical grounds, viz. non-submission of required documents prescribed while submission of the applications. Soon after these lacunae are fulfilled, the loans are sanctioned immediately. Basing on demand, the select HFIs sanction housing loans to the extent of upper limit fixed for the annual sanctions the details of which are provided in Table 1.

Table 1

ANNUAL SANCTION OF HOUSING LOANS BY THE SELECT HFIs						
Year	LICHFL			HDFC		
	Targets (Rs. in crores)	Sanctions (Rs. in crores)	Increase percentage over the previous year	Targets (Rs. in crores)	Sanctions (Rs. in crores)	Increase percentage over the previous year
2010-11	28.64	23.87	-	13.16	11.15	-
2011-12	31.61	26.34	10.35	14.41	12.21	9.51
2012-13	34.19	28.49	8.16	15.29	12.96	6.14
2014-15	37.50	31.25	9.69	15.64	13.25	2.24
2015-16	43.37	36.14	15.65	18.01	15.26	15.27

Source: Compiled from the records of select HFIs, Tirupati

It is observed that the demand has continuously increased in both the financial institutions from Rs.23.87 crores in 2010-11 to Rs.36.14 crores in 2015-16 in LICHFL and from Rs.11.15 crores in 2010-11 to Rs.15.26 crores in 2015-16 in HDFC. But the demand though increased is nominal up to 2014-15, thereafter, reported a sharp rise. It is interesting to observe that in terms of percentage the demand for the housing loans varied between the lowest of 2.24 in HDFC to the highest of 15.65 in LICHFL over the study period. The quantum of housing loans sanctioned has been two folds higher in LICHFL than in HDFC.

7.2 Gap between Sanctions and Disbursements

The HFIs charge interest on the amount they disburse to the borrowers. The HFIs with a eye on improving their profitability, disburse the loan sanctioned immediately to the borrower without any time gap. In other words the higher time gap affects the profitability of the financial institutions. But owing to various reasons sometimes the gap between sanction and disbursement is quite natural. The gap between sanction and disbursement of the loan to borrowers by two financial institutions has been elicited and presented in the Table 2.

Table 2

ANNUAL SANCTIONS AND DISBURSEMENTS OF HFIs							
Sl. No.	Year	LICHFL			HDFC		
		Sanctions (Rs. in crores)	Disbursements (Rs. in crores)	Share of disbursements in sanctions (in percentage)	Sanctions (Rs. in crores)	Disbursements (Rs. in crores)	Share of disbursements in sanctions (in percentage)
1.	2010-11	23.87	20.09	84.17	11.15	9.15	82.14
2.	2011-12	26.34	22.55	85.64	12.21	10.14	83.06

3.	2012-13	28.49	24.96	87.62	12.96	10.90	84.12
4.	2014-15	31.25	27.80	88.99	13.25	11.31	85.41
5.	2015-16	36.14	32.72	90.56	15.26	13.36	87.58

Source: Compiled from the records of select HFIs, Tirupati

It is apparent that the share of disbursements in the annual sanctions rose from 84.17 to 90.56 per cent in LICHFL between 2010-11 and 2015-16 and this increase has been consistent. In case of HDFC, the share of disbursements in the annual sanctions increased from 82.14 to 87.58 per cent between 2010-11 and 2015-16 and the share has continuously increased. The continued increase in the share of disbursements in the annual sanctions is satisfactory. But the sample HFIs have to improve the disbursement percentage further to make higher level profits.

7.3 Identifying Accurate Authenticity of Title Deeds

It is a difficult task to the officials of HFIs to identify the authentic ownership of the tile deeds based on the documents produced by the borrowers. So many forgeries, duplication of documents, fake documents come across by the lending institutions while scrutinizing the loan applications. They simply depend upon the legal opinions given by the concerned lawyers. In due course, they experienced many civil suits filed by the petitioners regarding ownership of the title in which case home loan is already sanctioned and disbursed. HFIs wise distribution of sample borrowers facing the problem of authenticity of title deeds are shown in the Table 3.

Table 3

HFIs -WISE DISTRIBUTION OF SAMPLE BORROWERS FACING THE PROBLEM OF AUTHENTICITY OF TITLE DEEDS	
Name of HFIs	No. of borrowers
LICHFL	13
HDFC	09
TOTAL	22

Source: Compiled from the records of select HFIs, Tirupati

It is observed that 13 sample borrowers of LICHFL, 9 sample borrowers of HDFC were facing the problem of authenticity of title deeds respectively. It is evident that higher numbers of sample borrowers were facing authenticity of title deeds in LICHFL Branch than HDFC Branch in Tirupati.

7.4 Administrative Expenditure

Any commercial organization charges administrative expenditure against its earnings. The expenditure pattern analysis of an organization indicates its expenditure budget. The particulars of items of the administrative expenditure relating to sample HFIs are furnished in the Table 4.

Table 4

COMPOSITION OF EXPENDITURE OF HFIs FOR THE FINANCIAL YEAR 2015-16				
Item	LICHFL		HDFC	
	Amount (Rs. in Lakhs)	Share in Total Exp. (in percentage)	Amount (Rs. in Lakhs)	Share in Total Exp. (in percentage)
Salaries	48,00,000	59.24	22,50,000	44.89
Rent	6,00,000	7.40	10,00,000	19.95
Traveling exp.	2,86,000	3.53	1,70,000	3.39

Legal exp.	15,41,500	19.02	9,78,000	19.51
Miscellaneous Exp.	8,75,415	10.80	6,14,625	12.26
TOTAL	81,02,915	100.00	50,12,625	100.00

Source: Compiled from the records of select HFIs, Tirupati

It is obvious that the share of salaries to the total expenditure is the highest at 59.24 in LICHFL and at 44.89 in HDFC. Thus, it can be noted that salaries form a major portion of expenditure budget in both the sample HFIs. The legal expenses form the second major share of total expenditure at 19.02 in LICHFL and rent form the second major share of total expenditure at 19.95 in HDFC. Further, the legal expenses too occupied a major percentage of total expenditure at 19.95 in HDFC on par with rent. The share of other two items, i.e. travelling and miscellaneous expenses together forms around 15 per cent each in LICHFL and HDFC.

Above all the administrative expenditure is higher in LICHFL compared to HDFC and their ratio is 8:5. Also, the expenditure on salaries and travelling is higher in LICHFL compared to HDFC. The expenditure on rent, legal expenses and miscellaneous expenses are rather very high in HDFC compared to LICHFL.

7.5 Auction under SARFAESI Act-2002

The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 had facilitated the lending institution to a maximum extent to recover the bad loans through auctioning the mortgaged property. In many cases, the recovery in this process is far below the actual dues to the HFI. In such cases the recovery of balance due amount is a difficult task to the lending institution. In the sample HFIs, no such cases were reported.

7.6 Temporary Personnel in HFIs

In the select HFIs employees are working temporarily, on the basis of commission/exchange/brokerage. They are like sales executives and these personnel can manipulate the things. The fixing up of responsibility in case of manipulation is not possible. They frequently change from one HFI to another as they like. They visit the borrowers and manipulate the things as per the requirements even when short falls do exist for consideration from borrowers. The borrowers offer some bribes to them and get the loans sanctioned to a maximum extent where they are really not eligible. In due course they become defaulters and may even land into legal problems thereby causing unnecessary expenditure to HFIs.

7.7 Recovery of Loan Installments

The herculean task of any financial institute is recovery of loan installments from the borrowers. The recovery performance of loans explains the sound and healthy nature of the institute. The successful running of institute mainly depends on the recovery of installments from the borrowers. The recovery performance of loan in the sample HFIs has been presented in the Table 5.

Table 5

RATE OF RECOVERY OF LOAN INSTALMENTS IN HFIS			
Sl. No.	Year	RECOVERY PERCENTAGE	
		LICHFL	HDFC
1.	2009-10	86.47	88.74
2.	2010-11	88.65	90.51
3.	2011-12	92.54	91.41
4.	2012-13	90.47	89.45
5.	2013-14	91.68	91.65
6.	2014-15	92.02	92.96

7.	2015-16	92.45	94.12
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Source: Compiled the records of select HFIs, Tirupati

The recovery percentage of loans which were at 86.47 and 88.74 per cent in 2009-10 in LICHFL and HDFC respectively reported a overall rise to 92.45 and 94.12 per cent. In the both the HFIs the rise in the rate of recovery has been consistent with the exception of 2012-13. On the basis of recovery percentage, it may be said that HDFC relatively fared better than LICHFL in respect of recovery performance. There is, however, scope in both the enterprises for 100 per cent recovery of housing loans.

7.7.1 Hypothesis Formulated and Tested

It is hypothesized that **“There are no significant differences in the housing finance system between the sample HFIs”**.

Table 6 shows that annual sanction, disbursements and rate of recovery of loan installments in the sample HFIs.

Table 6

ANNUAL SANCTIONS DISBURSMENTS AND RATE OF RECOVERY OF LOAN INSTALMENTS IN THE SAMPLE HFIs							
(Rs. in crores)							
SI No.	Year	LICHFL			HDFC		
		Sanctions	Disbursements	Recovery	Sanctions	Disbursements	Recovery
1.	2010-11	23.87	20.09	17.37	11.15	9.15	8.12
2.	2011-12	26.34	22.55	19.99	12.21	10.14	9.18
3.	2012-13	28.49	24.96	23.10	12.96	10.90	9.96
4.	2014-15	31.25	27.80	25.15	13.25	11.31	10.12
5.	2015-16	36.14	32.72	30.00	15.26	13.36	12.24
	Mean	29.22	25.62	23.12	12.97	10.97	9.92
	S.D	4.73	4.89	4.86	1.52	1.57	1.52
	C.V	16.19	19.08	21.00	11.70	14.29	15.29
	LGR	10.08	11.91	13.16	7.14	8.74	9.25
	t-value	9.768*	10.532*	12.497**	6.351*	6.581*	5.678*
Paired Sample t-test between LIC Sanctions to HDFC Sanctions t=10.528 df=4 critical value =2.78 Paired Sample t-test between LIC Disbursements to HDFC Disbursements t=9.132 df=4 critical value =2.78 Paired Sample t-test between LIC Recovery to HDFC Recovery t=8.091 df=4 critical value =2.78							

Source: Compiled from the records of select HFIs, Tirupati

The t-test values are significant at 5 per cent level for all the parameters of sanctions and disbursement of both the HFIs of LICHFL and HDFC. It is inferred that these are substantially significant but the t value is significant at 5 per cent level in LICHFL and 1 per cent level in HDFC. Hence forth, the null hypothesis that **“There are no significant differences in the housing finance system between the sample HFIs”** is rejected.

8.0 SUMMING UP

The borrowers face various problems with HFIs in respect of sanctioning, disbursing and recovering the loans. The quantum of housing loans sanctioned has been two folds higher in LICHFL than in HDFC. The expenditure on rent, legal expenses and miscellaneous expenses are rather very high in HDFC compared to LICHFL. But, the recovery percentage in HDFC has been relatively better than LICHFL.

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