CHAPTER-9

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This chapter intends to summarize and also to reveal some of the important conclusions that emerged from the study, "Housing Finance by LIC Housing Finance Limited and Housing Development Finance Corporation with special reference to Hyderabad."

Housing is the dream of a lifetime. It is a base to achieve economic and social status and provides physical security. A society is not judged by the standards attained by its most affluent and privileged ones but by quality of life of weaker sections. It requires a powerful integrating concept for the design of intervention at household level, which can contribute to rapid and sustainable development.

Housing is one of the most important basic needs of the human being irrespective of caste, creed, colour, community, and as a matter of fact, it is a basic human right. Housing occupies third place in the hierarchy of human needs after food and clothing. Owning a house is an indication of development of both economic and welfare status. It is considered as the major goal of family’s savings efforts. Therefore, it is important to note that the environment of housing has profound impact on the socio-economic and physio-psychological development of human beings.

Housing being one of the basic needs and an indicator of the quality of life, it helps in creating conditions conducive to the achievement of crucial goals in matters pertaining to education, health, sanitation and living standards of the people. Better housing facilities would mean improved productivity.

Housing has substantial social benefits leading to the welfare of the community. It gives adequate privacy, adequate security, space, ventilation and lightening and basic infrastructure creates self-employment opportunities. In countries with under-utilized labour, material and financial resources, housing can make use of
such resources at low cost. It is recognized as a profitable investment since the net asset value increases year after year.

The significance of housing from commercial point of view is one of the important sources of earning for those who have got unutilizable excessive funds. By constructing house for rental purpose, people can earn constant incomes for generations together.

According to Government of India Reports, the housing shortage in India is estimated at 41 million by 2000-2001. About 75 per cent of the shortages of housing are in rural areas, characterized by low-level of economic activity and lack of adequate institutional finance.

The housing situation in major urban areas is also poor due to the migration of population from rural areas. The major cause for housing problem is increasing population, which is at a high rate. The movement of people from rural to urban areas and the resource constraints i.e., the available resources with government are not sufficient to meet the requirement of housing for the entire population and hence the increase in the number of slums.

To overcome the shortage of housing problem, Government of India has evolved various schemes for the weaker section of the population. Both Central and State Governments have been doing a lot to provide this basic necessity to uplift the social-well being of the masses.

As a follow-up of the Global shelter strategy (GSS), National Housing policy was announced in 1988. The goal of NHP was to eradicate homelessness, improve the housing conditions of the inadequately housed and provide minimum level of basic services and amenities to all.

The Government through a National Agenda declared "Housing for All" as a priority area and has a target of construction of 2 million houses every year with
emphasis on the poor and deprived, out of which 0.7 million houses shall be constructed in the urban areas.

The housing and habitat policy of 1998 aims at providing quality and cost effective shelter, especially to the vulnerable groups and the poor ensuring that housing along with the supporting services, like removing legal, financial and administrative barriers for facilitating access to land, finance and technology are treated as a priority.

The National Housing Policy 1998 lays down that the role of all the stakeholders for achieving the goal of providing shelter to all by using technology for modernizing the housing sector to increase efficiency, productivity, energy and quality.

Therefore, no significant headway can be achieved without massive participation of the private sector in achieving the goal of providing shelter to all.

Financing to housing is an important element of housing policies pursued by the Government of developed and developing Nations in the World. Investment in housing is viewed as a necessary component of overall package of investment for fostering the socio-economic development in the Country.

Investment in housing stock and housing services in a developing Nation is inadequate due to low per capita income, high land prices and rising construction cost on the one hand and on the other hand due to inadequate financial assistance from the under developed financial system.

Housing Finance is considered to be a challenging task before any government because of its long-term nature and requirement of massive investment. Investment in housing assumes greater importance as economic growth spread to all sectors of a national economy and encompasses all sections of the population of the society.
FINDINGS

As already stated some of the important observations made out of the study are presented here under.

1. In India, Housing Financial System (HFS) falls under formal and informal source. Formal source includes budgetary allocation of Central and State Governments, assistance from financial institutions like LIC, GIC, Commercial Banks and other Housing Finance Companies. Informal source of housing finance systems are primarily from private sector as only 16 percent of the resources come from formal system of housing finance. Flow of credit or finance from the formal source originates from two sources such as bulk credit and the retail market.

2. The development of housing finance system in India has gained momentum only after establishment of an apex institution, the National Housing Bank. The primary function of this bank is to promote and regulate the housing finance system. The policy of NHB has yielded satisfactory results, as a result, the number of NHB approved housing finance companies are growing now.

3. The housing finance companies have access to funds from a variety of sources namely owned funds, international borrowings and domestic borrowings from institutions and from banks and public deposits. Regarding international borrowings, only HDFC has been successful in availing loans either through direct borrowings from institutions such as World Bank and International Development Corporation.

4. LICHFL and HDFC are two premier organizations in the field of housing finance. Among all the institutional arrangements for housing finance these two institutions have a significant role to play. LICHFL started its activities in 1989 with the main objective of "to each one a home of his own". It renders liberal financial assistance to policy holders and others for the purchase and construction of residential houses/flats.
5. The HDFC which was formally promoted and incorporated in 1977 with the primary objective to enhance residential housing stock and to promote home ownership, is providing individual household/families with long term mortgage loans at commercially viable rates.

6. A comparative evaluation of both the organizations on selected parameters, it can be said that the concentration of HDFC is only on urban areas as compared to LICHFL which also considers the rural areas for its operations, apart from the urban areas. In Hyderabad, LICHFL and HDFC has six offices. Agents and marketing force in both the organizations are playing an important role in promoting the housing activities. Both LICHFL and HDFC are concentrating on individual loans, as 95 per cent of the beneficiaries are individuals in LICHFL while it is 72 percent in HDFC.

7. The terms and conditions of both the organizations are similar in nature as far as securities of loans are concerned.

8. Both the organizations are charging early redemption charges on the payments made ahead of schedules by the borrowers who opted for fixed interest loan.

9. As far as the fixation of EMI is concerned, the method adopted by both the organizations is similar. The difference lies only in the implementation of interest charges.

10. In case of cost of loan, a fixed fee is adopted by HDFC whereas variations are found in LICHFL. Hence, it may be stated that the operations of both the organizations by and large is similar with slight variations with regard to terms and conditions.

11. The study of trends in resource structure of LICHFL and HDFC revealed that their equity base is not sound enough to meet their requirements. It is further observed that their dependency is more on debt funds in their efforts of resource mobilization.
12. From the analysis of trends in the equity structure of LICHFL and HDFC, it is found that share capital as a percentage of equity of LICHFL has declined to 11.72 percent in 2011-2012 from 21.80 per cent in 2007-2008. The same in case of HDFC declined to 5.06 per cent in 2011-2012 from 10.17 per cent in 2007-2008. This decline may be attributed to constraints in raising equity funds.

13. The study of composition of reserves and surplus revealed that the special reserve in LICHFL constituted major share of total profits and it is followed by general reserve. In case of HDFC, out of the profits major portion was appropriated towards Special Reserve and General Reserve which was relatively greater except in the year 2009-2010 and 2011-2012.

14. The compound annual growth rate of reserves and surplus of LICHFL and HDFC revealed that it was 20.30 percent and 10.81 percent respectively. Further the reserves and surplus of HDFC in absolute terms are greater than that of LICHFL.

15. It is also observed that the compound annual growth rate of loan funds are showing an increasing tendency and the comparative compound annual growth stood at 20 and 24 percent respectively for LICHFL and HDFC, during the period under review.

16. The analysis of debt-equity ratio of LICHFL and HDFC revealed that these are 8.23:1 and 6.52:1 in the year 2011-2012 respectively, which were 7.39:1 and 3.93:1 in the year 2007-2008 respectively for LICHFL and HDFC. This is indicative of the role of debt funds in financing operations of these two premier housing financing companies.

17. An analysis of profitability of both organizations revealed that compound annual growth of profits is 19.30 and 17.88 percent respectively for LICHFL and HDFC.
18. From the analysis of return on shareholders equity, it can be inferred that the LICHFL's rate of return is around 21.96 percent over the period of study. In case of HDFC, the rate of return of shareholder's equity is found to be increasing gradually and it 19.97 percent in 2011-2012.

19. The analysis of sources of loan funds revealed that in case of LICHFL, the secured loan funds are significant as compared to unsecured loans. In contrast, in HDFC's loan funds, the major constituent is deposits and domestic borrowings followed by foreign borrowings, debentures and bonds.

20. The comparative study of resources of both the organizations shows that the proportion of share capital of LICHFL is greater than that of HDFC over the period of study.

21. A study of the reserves and surplus revealed that the proportion of reserves and surplus in equity is higher in HDFC than LICHFL during the period of study.

22. The comparative evaluation of loan funds showed that the proportion of loan funds is higher in case of LICHFL than that of HDFC to the total funds employed.

23. A study of loan sanctions in LICHFL revealed that the compound annual growth is 23 percent and in case of HDFC the same is 28 percent, indicating the demand for housing finance.

24. The compound annual growth of disbursements of LICHFL is 18 percent, while it is 28 percent in HDFC. It is noted from the study that the compound annual growth in both sanctions and disbursements is 28 per cent in HDFC.

25. From the analysis of ratio of disbursements to sanctions, it was found that ratio of disbursements to sanctions for LICHFL is 93.03 percent over the study period. The same in HDFC stood at 84 percent. This is indicative of the comparative disbursements performance of these two organizations in housing finance operations.
26. Over the study period, the ratio of cumulative loan sanctions to disbursements in LICHFL and HDFC is found to be 88.75 per cent and 83.46 percent respectively.

27. The analysis of perceptions of the borrowers indicated that the borrowers had the information through their friends and relatives rather than from any other source. It shows the insignificant role of print and electronic media in creating awareness about the operations of the organizations.

28. It is found that majority of the borrowers in LICHFL and HDFC applied for new construction of houses and a few instances of extension/improvement and repairs of houses are noticed.

29. It is also observed in the enquiry about the loan application processing that, a majority of the beneficiaries in both the organizations expressed that the process is cumbersome.

30. The study of occupation and amount of loan raised by the beneficiaries revealed that majority of the beneficiaries are Government employees.

31. The study of amount of loan applied and value of construction revealed that the majority of the people in LICHFL and HDFC have raised the loan ranging between Rs.5 to 10 lakhs. Majority of the borrower's value of construction in LICHFL is between Rs.1 to 5 lakh and in case of HDFC, it is Rs.5 to 10 lakhs.

32. The cross sectional analysis of amount of loan applied to amount of loan sanctioned revealed that the proportion of loan sanction to applied, were in the range of 75 percent to 80 percent when the amount of loan applied is ranging between Rs.5 to 10 lakhs.
33. The analysis of time-lag indicated that LICHFL and HDFC were taking on an average of 40 to 60 days for sanctioning the loan from the date of filing of the applications by the borrowers.

34. It is also noted that the time-lag between sanction and disbursement is on an average 10 to 15 days in both the organizations.

35. An observation of the perception about the interest rates of both the organizations revealed that the rate of interest charged by the LICHFL and HDFC is moderate and affordable. Only smaller proportion of them stated that it is high.

36. From the analysis of processing costs of loan i.e., expenditure incurred before loan procurement in the form of administration fee and processing fee is in between Rs.2000 to Rs.8000 in both the organizations, depending on the amount of loan applied for.

37. The analysis of overall performance of LICHFL and HDFC based on selected parameters revealed that 52.80% of the total sample from LICHFL is satisfied with the overall performance. While 48% of the borrowers of HDFC expressed that they are satisfied with HDFC. Thus it can be concluded that majority of the borrower’s attitude is positive and were satisfied with housing finance performance of LICHFL and HDFC.

38. It is observed from the analysis of recoveries position of HDFC that its compound annual growth is 20.68 per cent over the study period.

39. An analysis of the recovery performance of both the organizations with the help of some primary data revealed that majority of the borrowers from LICHFL and HDFC prefer to repay loan in 15 years and above. There are instances where they would like to repay before the term of loan. Beneficiaries of LICHFL and HDFC further revealed that the mode of repayment of loan through E.M.I, is preferred over the other alternative methods of repayment. From the perception of the borrowers and
interaction with the officials of LICHFL and HDFC, it is noted that the method of recovery system is quite effective and no threat to recovery performance.

40. There is a tendency among the borrowers for prepayment which is beneficial to both the organization and borrowers as well.

41. The study also revealed that the borrowers of both the organizations have paid the penalty for pre-payment i.e., early redemption charges for making payment before the term of repayment. For this act they were charged with 1 percent and 2 percent early redemption charges respectively by LICHFL and HDFC.

42. The analysis of perception of borrowers about justification for penalty on prepayment disclosed that majority of them stated it as injustice on the part of the organizations. This may bring down the enthusiasm of borrowers for pre-payment, affecting the effective and fast recycling of limited resources available with these organizations in house financing operations.

43. The analysis of recovery performance reveals that the borrowers are paying their loan installments promptly since they would like to safeguard themselves from the legal action by the organizations in case of defaults. Further it is found that majority of borrowers have suggested the measures like counseling, persuasion and legal notices, instead of strict measure like seizure of property in the event of default of loan repayment.

44. It is also found from the study of borrower's perception that the tax incentives by the Government is one of the crucial motivators for going for house construction and house fronting by a majority of the beneficiaries, especially those who are in the higher income groups. This signifies the role of tax policy being played in house financing in the country.
45. In a major relief for home loan borrowers, the Reserve Bank of India (RBI) in its annual Monetary Policy for 2012-13 has made it mandatory for all banks to stop the practice of charging penalty on pre-payment of loans taken on floating rate.

46. Service Quality in LICHFL and HDFC:

The analysis of service quality in LICHFL and HDFC which are service organizations are required to deliver the services for the satisfaction of loan takers. Unfortunately, the service quality in LICHFL and HDFC is so poor that majority of the borrowers are unhappy with both the organizations. The service gap analysis using the Servqual Model of Beri Parasuraman and Zethmalani reveals that there were many gaps in the services being provided by LICHFL and HDFC. All the dimensions of service quality mainly viz;

1. Reliability; 2. Tangibility; 3. Responsiveness; 4. Assurance and
5. Empathy are not well taken care by LICHFL and HDFC.

46. Hyderabad Real Estate is going on the upward swing. The government and public are joining hands to make progress. Hyderabad house property prices also currently undergoing a go ahead in the real estate development scenario.

45. The City of Hyderabad is growing very fast during the last two decades, due to fast growth, people from all over the country more particularly from the rural areas of Andhra Pradesh are migrating to Hyderabad in search of employment and education for their children.

46. The Greater Hyderabad Municipal Corporation (GHMC) is the Central City with an area of 217 square kilometers and a population of 40,01,238 as on 2011. The nine smaller municipalities together cover an area of 376.97 square km. The rest of the area under HUDA is in 242 villages constituted into 106 gram panchayats or rural local bodies, with a population of 40,01,238 as on 2011.
47. To develop Hyderabad City, Hyderabad Metropolitan Development Authority (HMDA) was formed by an Act (GO Ms. No. 570 MA dt: 25-08-2008) of the Andhra Pradesh Legislature in the year 2008, with an area of 7,100 sq km under its purview. It is the 2nd largest urban development area in India, after the Bangalore Metropolitan Region Development Authority (8,005 sq km).

46. Government of Andhra Pradesh estimates that by 2020, the city will become more than three times to its current size. By 2012 the population of Hyderabad is expected to reach 13.64 millions.

48. The biggest problem of all the problems in Hyderabad is the scarcity of housing. Now the Greater Hyderabad Municipal Corporation (GHMC) is facing many constraints in the provisions of housing to majority of people. Mean while the slums are increasing causing so much of problem. Now the government of A.P, GHMC and government of India has been trying to enhance the housing facilities to the majority of population in Hyderabad.

49. Urban housing is increasingly becoming an important issue to address the rising levels of urbanization across the country. Urban housing is however no longer viewed as a simple issue. But, it is seen from multiple dimensions.

50. Inspite of long period of uncertainty of splitting of A.P State, real estate rates in Hyderabad are going up and there is steep hike of 3% in the recent times.
SUGGESTIONS

In the light of the observations made in the preceding sections of this chapter, the following suggestions are offered to bring further improvement in working of the LICHFL and HDFC.

1) Network of LICHFL and HDFC is at present confined to limited areas. It could be better, if they expand their operational network to every district head quarter.

2) Simplification of application processing procedures needs to be affected.

3) Electronic and print media may be used to bring awareness in the people at large.

4) It would be better if all the documents along with the applications are thoroughly scrutinized before sanctioning the loan.

5) Time lag between loan application and sanction should be minimized.

6) Time lag between loan sanctions and disbursements may be reduced so that the finances can be made available in time.

7) There should be proper monitoring with regard to technical evaluation of the proposals of house financing by the Panel Value Engineer in LICHFL and Technical Team in HDFC so that there won't be any delay in release of loan amount.

8) Time lag between first installment of disbursement and subsequent installments needs to be reduced.

9) As far as interest rate is concerned HDFC is charging the current rate of interest, while LICHFL is charging the rate of interest which was agreed upon.
by the borrowers at time of application of loan. It would be better if LICHFL adheres to the practice of charging floating rates of interest.

10) It is advisable for both the organizations not to insist upon the personal guarantors since collateral security is in the form of property mortgage and LIC policies are taken.

11) It would be better to persuade the defaulters through counseling before issuing legal notices.

12) It is advisable for both the organizations to dispense off with early redemption charge (i.e., penalty) on pre-payment on fixed loans (i.e., repayment ahead of schedule).

13) **Improving Service Quality:** LICHFL and HDFC must give excellent services to their customers which are cost-effective for the company.

14) **Brand Building Strategies:**

   i. **Develop Customer’s Trust:** LICHFL and HDFC needs to develop trust of the customers.

   ii. **Understand Customer’s Habits and Expectations:** LICHFL and HDFC needs to understand the specific needs to the customers and must develop the product in such a way that it is tailored made that suits all segments of the customers.

   iii. **Research Personnel:** LICHFL and HDFC must appoint dedicated research personnel who can closely monitor aspects like pre-testing new products and procedures and must make necessary changes according to the response received from the customers.

15) **Publicize the Benefits:** LICHFL and HDFC must introduce self-service equipments or procedures which require consumers to perform part of the task
themselves. Useful strategies may include use of mass-media advertising, on-site posters and signage, and personal communications to inform people.

16) **Introduction of New Product and Services:** LICHFL and HDFC need to assign service personnel to demonstrate new schemes and answer questions and providing reassurance as well as assistance is a key element in gaining acceptance of new product and services.

17) **Conduct of Customer's Meets:** LICHFL and HDFC needs to conduct quarterly customer's meet and also take their suggestions. They must also need to mail the customers about the developments happening in LICHFL & HDFC and about their housing loan transactions.

18) **Maintaining Personal Relationships:** LICHFL and HDFC need to strengthen good customer relationships with the customers by sending greetings on their birthdays, anniversaries, festivals and other special occasions.

19) **Monitor Performance and Continue to Seek Improvements:** LICHFL and HDFC needs to monitor its performance and must implement necessary changes without any hesitation to improve product and services.

20) **Societal Courtesy:** Apart from business, LICHFL and HDFC also needs to societal help by sponsoring to the noble causes, conducting charity programmes and helping the general public through its social community programmes.

21) **Customer Relationship Management:** LICHFL and HDFC must take immediate steps to implement CRM in all its offices. The implementation of CRM may be of more help in reducing the service gaps in them.

22) A.P State Government must reduce taxes and give concessions for affordable houses at approximately Rs. 1,200 to Rs. 1,300 per square feet to the common man in Hyderabad for the development of housing.

23) Since 1956 to 2011, the city of Hyderabad has grown without limits even though the government of A.P formed Greater Hyderabad by joining the
adjoining villages into Hyderabad city, now the population of Hyderabad is 40,01,238 lakhs and Hyderabad became one of the thickly populated City in Asia.

24) As the City of Hyderabad is growing very fast during the last two decades, people from all over the country more particularly from the rural areas of Andhra Pradesh are migrating to Hyderabad in search of employment and education for their children. So, as there is severe shortage of housing in Hyderabad, government must implement more housing policies to meet the shortage of housing in Hyderabad and also LICHFL and HDFC must provide more housing loans to the people of Hyderabad.

25) Housing being an important basic need of the human being, the measures taken by the government and private sector would attract the attention of all. In this context, this comparative study is an attempt to evaluate the housing finance provided by LICHFL and HDFC.

This study signifies and gives scope to LICHFL and HDFC to implement necessary changes to address the problems of borrowers of housing loans and provide more housing loans to the people of India for the development of the Nation.