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**ANALYSIS OF HOUSING FINANCE SYSTEM AND
ITS CONCERNS IN INDIA**

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Analysis of Housing Finance System and Its Concerns in India

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Abstract – Macroeconomic constancy and the housing sector are inextricably allied. Housing is an important locomotive for augmentation and growth of any financial system. Secure and reasonable housing implies an increase in service and educational opportunity for individuals and also augments communities leading to a better excellence of life and a better civil society. In this paper we analyzed housing finance system and its various concerns.

Keywords: Housing, Economic, Government, Employment

INTRODUCTION

Housing has always been an important agenda for the Government of India. It generates national income by creating employment and helps the individuals in their socio – economic development. It gives impetus to the economy by enhancing capacity utilization of related industries such as steel, cement, transportation, etc. The home loan sector in India is on a boom. The new class of young buyers, whose affordability is high, is spending a little more on paying EMI rather than spending huge amounts on the rents, thereby owning a house. The government is also encouraging this sector by allowing tax benefits. The housing finance sector shows an exponential growth as compared to the other areas of credit. The annual growth rates (in %) of direct housing finance disbursements by the Primary Lending Institution during 2001-02, 2002-03, 2003-04 and 2004-05 were 25,76,29 and 32 respectively. While housing finance is experiencing exponential growths, the menace of bad loans cannot be ignored. These loans required better monitoring, fair assessment of property and compliance with end – use principles and because of the Securitizations Act, banks are now able to overcome the problem of non- performing Assets e.g. In 2004-05, percentage of NPA in housing finance was only 1.4 compared to 2.80% in case of banks' total retail credit [Sreelaxmi P. ,2007].

The demand for housing has increased rapidly due to population growth, migration from rural areas to urban areas, the decay of the existing housing stock and breakdown of traditional joint families. The information technology revolution and rapid growth of knowledge based industries in recent years have also further contributed to the already growing acute shortage of housing India particularly in urban areas. Since housing requires huge investment, a critical constraint

for the development of housing is lack of finance. Every citizen of the country dreams of having his own house. Especially when you plan to buy a home on loan. Home loans means that you buy a house on installments. In other words when you want to own a home and cannot afford to pay the amount in lump sum, you can pay it in monthly installments with an interest rate. On an average a person spends almost two-thirds of his life in a house which is his sanctuary in his old age.

REVIEW OF LITERATURE:

Manohar (2007) addressed the key issues of housing loan frauds. Aggressive growth in housing finance by the banks is for the reasons of Tax incentives on repayment of principal and interest, rising income level of the middle class, affordable interest rate, completion amongst banks and housing finance institutions, low returns on other investments, low incidence of NPA, and housing as priority sector lending for banks. Housing loans as a percentage of GDP, is 57% in UK, 54% in USA and it is only 2.5% in India. It shows vast scope for housing loans in India. Increased focus of banks in housing finance is also not free from fraud. Fraud is one of the reasons for turning the housing loan account to NPA.

Three distinct housing finance systems are evolved worldwide namely public financing, market financing and mixed financing (Mahadeva, 2004). Financing housing activities by government has been the most common method since time immemorial. It is true that banks are making all out efforts to woo the potential customers by offering finer interest rates, sometimes going below the PLR. Considering the speed at which the new credit drivers has been moving, it may be

necessary to install speed –breakers to regulate the speed (Thingalaya, 2005).

CONCERNS OF HOUSING FINANCE IN INDIA:

The demand for housing has increased rapidly due to population growth, migration from rural areas to urban areas, the decay of the existing housing stock and breakdown of traditional joint families. The information technology revolution and rapid growth of knowledge based industries in recent years have also further contributed to the already growing acute shortage of housing India particularly in urban areas. Since housing requires huge investment, a critical constraint for the development of housing is lack of finance. With the entry of commercial banks into housing finance, the housing sector has witnessed real boom during the last decade. The growing demand for housing finance has contributed for rapid growth of banks' lending to housing sector. Housing finance has now emerged as an important segment of the credit portfolio of banks. Its rate of growth in the recent years is rapid enough to cause concern to the regulator. During the year 2003 for example, the unprecedented interest evinced by almost all banks in attracting new customers for their housing loans, has resulted in an increase of 55 percent in housing finance. In its Annual Report 2002-03, the Reserve Bank of India expressed its concern in a box item captioned as Housing Finance: New Driver of Bank Credit. "The cause for potential worry" it revealed, "is that by lowering the lending rates, banks are approaching the cost of funds". It cautioned, "Banks need to be alert against an unbridled growth of housing finance and should take due precaution in the matter of interest rates, margin, rest period and documentation." Tarapore Committee has already drawn the attention of policy makers on the growing subprime quality of housing finance in India.

NEED AND SYSTEM OF HOUSING FINANCE:

Housing finance is basically required by both suppliers (builders) and users. The builders need finance for land acquisition, purchase of building materials and construction related activities. The household-users need finance for purchase / construction of new house or flat or house-site, for repairs, renovation or extension of already existing houses. Housing being a long durable asset, the finance required is generally a long term credit in nature.

CONCLUSION:

In this paper we found that as a durable asset, housing organization gives security for house finance. Therefore it is made typically against advance of house itself as security. Logically it follows that to become entitled for house finance, the borrower should be the proprietor of the house with clear title of ownership. Housing finance, thus, enables individual households to get hold of land and build their own house units with the basic facilities for a better standard of living.

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