Housing Finance in Tamilnadu
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Abstract

The demand for housing finance is increasing day by day. The factors like population growth, economic growth, urbanization, insufficient Capital, change in the pattern of occupational distribution, increased educational level, changes in Government policy etc., affect the need or demand for housing finance. Liberal tax incentives by the Government, low and competitive interest rate for housing finance has made this sector as red hot sector. The aim of this study is to find out the significant relationship between the performance of housing finance and the type of bank. To test the objectives certain hypotheses are formulated. Correlation is used to test the hypotheses. Result found that there is a positive and significant relationship between type of bank and performance of housing finance.

Key words: Housing, Housing finance, Housing Finance Companies (HFC) National Housing Bank.

INTRODUCTION

Housing finance all over the world are undergoing tremendous changes and have acquired great significance in the present day context of liberalization, globalization, and modernization of the society. Today, for India to achieve balanced economic growth, it is essential to boost construction activity in the housing sectors. Nearly 31% of India’s current population lives in urban areas and contributes 63% of India GDP (Census 2011). With increasing urbanization, urban areas are expected to house 40% of India’s population and contribution 75% of India’s GDB by 2030. In the year 2000, home finance was just 1.5 per cent of the total bank advances and in the 2012 it has risen to around 10-12 percent. At present, GDP growth seen at 8.1-8.5 percent in 2015-16 Double digit growth trajectory with 8-10% GDP in coming years.

Housing Scenario in India

We are looking at the Housing Scenario at a stag when the National Economy is on the road to revival, after reeling under depressive conditions for over the last three years. The growth rate of the economy might go up to levels up to 6%, if the revival is kept up. Share markets are not entirely looking up, though they are stabilizing at levels which can be termed as reasonable. Industrial growth
rate which was wallowing at a low of 1.5% is now at around 5%. In fact, industrial credit given out by banks which in normal times would be about 4-5 times of bank credit given to housing, had in the last few years reduced to levels below advances to housing loans. But the happy feature is that industrial growth is picking up. Even, the steel sector which was hopelessly down is now having hopes of revival. It is only housing, amidst all these that seems to have kept up fairly stable front. Yes, the late 90s saw even housing go through a bad phase. But, then with that phase crossed, there has been a steady revival and stabilization of the market at levels which can be termed as reasonable from the point of view of both the customers and those on the supply side. Housing is a basic need and like any basic human need will be constantly in demand. The potential for housing in this country is huge by NHB estimates. And the requirements by NHB estimates are around 20 million houses. There are other estimates which suggest that it is at a much higher level. Even going by the conservative estimate taken by the NHB, the requirements in the area of housing are massive. This really means that a lot of investments can be there in the coming years and there is room for multiple players.

Going by figures of amounts given out by the organized financial sector, the average of money being advanced for purchase of housing is in the range of 20 to 25 thousand crores every year over the last five years. In the next five years these may be in the region of 70-75 thousand crores. There is also talk of foreign direct investment coming in, this will add to the capabilities of the financial sector in meeting the requirements in the area of housing. The considered view on FDI is that it would not in any way present hardships to the local developer community. They may on the other hand enable the local entrepreneurs to organize the construction industry in a more stable way. The reason why I venture forth to say this is that finance has been one of the areas of uncertainties as far as investments into the construction industry are concerned. FDIs might end up strengthening this area by bringing in finance and steadying the construction industry through the joint venture route.

**Review of literature**

Singh Fulbag et.al. (2006) in present study, the authors have studied the housing finance in India. Housing, as one of the three basic needs of life, always remains on the top priority of any person, economy, government and society at large. In India, majority of the population lives in slums and shabby shelters in rural areas. From the last decade, the Government of India has been continuously trying to strengthen 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. Moreover, for the salaried section, the tax rebates on housing loans have been introduced. The paper is based on the case study of LIC Housing Finance Ltd., which analyzes region-wise disbursements of individual house loans their portfolio amounts and the defaults for the last ten years, i.e., from 1995-96 to 2004-05 by working out relevant ratios in terms of percentage and the compound annual growth rates.

Peppercorn (2013) presents the following critical factors for development of housing finance markets: a) Value for money, i.e. maximize the impact of public resources, leveraging government initiatives with the involvement of the private sector, with the goal of achieving a higher multiplier; b) Coordination, i.e. ensure the coordination between administrations and public/private sectors, to maximize the efficiency and effectiveness of the programs; c) Public sector role, i.e. from provider to enabler of housing; and d) Inclusive housing finance, i.e. include non-salaried borrowers. According to Peppercorn, poorer households tend to borrow from informal sources, at higher rates.

**Objective of Study**

The main objective of the study is to find out the relationship between performance of housing finance and the type of bank.

**Hypothesis of the study**

There is a positive and significant relationship between type of bank and performance of housing finance.

**Methodology**

The methodology adopted for the research included complication and analysis of both Secondary and primary data and consultation with bankers and Builders Association. The Secondary data was collected from the banks from their annual report and from the publication of the Reserve Bank of India and National Housing banks.
RESULT AND DISCUSSION

Correlation analysis between type of bank and performance of housing finance.

<table>
<thead>
<tr>
<th>Type of bank</th>
<th>Performance</th>
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</thead>
<tbody>
<tr>
<td>Government</td>
<td>0.63**</td>
</tr>
<tr>
<td>Specialised institution</td>
<td>0.52**</td>
</tr>
<tr>
<td>Private</td>
<td>0.27*</td>
</tr>
</tbody>
</table>

*Significant at 0.05 level

Result inferred that there is a positive and significant relationship between type of bank and performance of housing finance. Based on the obtained result government bank have better performance than other type of bank related to housing finance. The obtained correlation for government bank is highly significant. But the private bank have least significant value. So it is concluded that the government bank have better performance in housing finance.
Findings

- Government banks have better performance than other types of banks related to housing finance. The obtained correlation for government banks is highly significant.
- Specialised institutions have a moderate level of performance in housing finance.
- The private banks have the least correlation value. So the private banks have a low level of performance in housing finance.

Housing Finance – Future Prospects

In the past, a slew of regulatory reforms such as allowing foreign direct investments, improving access to credit by households, providing tax incentives on housing loans, developing special economic zones and thrust on infrastructure development, coupled with high economic growth have propelled private sector participation in urban housing development to some extent. However, it has largely resulted in the development of Middle Income Group (MIG) and High Income Group (HIG) houses, leading to significant shortage of EWS/LIG or affordable houses. The universe of urban poor requiring houses can be divided amongst Slum Dwellers, Urban Poor living in Non-Slum areas, Prospective Migrants, Homeless and Destitute. Housing shortage is gigantic and more pronounced in certain States and big cities. As per the report of the Technical Group on Urban Housing Shortage, EWS/LIG houses constituted more than 95 per cent of the housing shortage in 2012. It is with this background that the vision of “Housing for All” assumes greatest significance.

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