



## HOUSING FINANCE: CHALLENGES AND ISSUES

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### ABSTARCT

*In Indian Finance Sector, housing finance is not a new concept, but development of this concept was new. Housing finance has been developed rapidly since from last few decades and housing finance companies playing significant role in solving housing shortage in India, but there are certain problems which create challenges and issues to the housing finance companies directly or indirectly. This paper is an attempt to reveal challenges and issues in respect to housing finance companies in general and housing finance customers related to LICHL in Kalaburagi City.*

**Key words:** *Housing finance, Housing shortage, Problems, Customers.*

### INTRODUCTION

Housing or shelter is one of three basic needs of human beings. This is accepted and approved by civilized society. Housing is one of the important activities and plays an important role to socio-psychological development of the individuals. Housing Finance is an important element of housing policies pursued by the Government. Housing is one of the basic necessities of man; the capital required per dwelling is so large that few individual can built up from their own savings. Therefore there is a great need and scope for the development of arrangements for supplying or finance for the purpose of construction or purchase of house etc.

Investment in housing is a necessary element for encourage the socio-economic development of modern societies. Therefore, more investment in housing is a direct off shoot of the welfare of state goals of modern government. Money is limiting factor in India, investment in modern housing stock and housing service in India is grossly inadequate due to low per capita income, high land prices and rising construction costs on one hand and inadequate financial assistance on the other hand. The problem of housing has been of great importance ever since the evolution of mankind. There has been tremendous growth in the demand for housing in our country since from three decades due to population growth.



### OBJECTIVES OF THE STUDY

- To study about the various challenges and issues of Housing Finance Companies in India in general
- To study the various problems faced by housing finance customers before and after taking loan in particular to LICHL in Kalaburagi City.

### SOURCES OF THE DATA

For the purpose of the study, two sources of data have been collected.

#### Primary data

A broad questionnaire was administered to the individual home loan borrowers of LICHL to know their opinion regarding challenges and issues of LICHL.

#### Secondary data

The secondary data was collected from the magazine, books and research articles etc.

#### Random Sample Size

The sampling technique has been adopted to collect necessary information. The sample size for the study was 80 sample respondents have been selected on the basis of random sampling technique.

#### Sample Unit

Respondent of LICHL of Kalaburagi city.

### PROBLEMS OF HOUSING FINANCE COMPANIES IN GENERAL:

Many of the plan objectives like shelter to the needy, improving quality of life, creating environment conducive for better health and sanitation, creating additional employment, bringing urban, rural and inter personal in terms of standard of living can be achieved with housing. The HFCs are working hard to minimize the housing problems by reducing the lending rate and encouraging the people to have their own house. However they have so far touched only the periphery of the problem. The problem of housing is still existed due to the multi-dimensional problems encountered by HFCs themselves. The selected few important problems have been discussed overleaf.

**1. Availability of funds:** It is the most important problem of the HFCs. The borrowing capacity of the people has increased due to the budget proposals whereas the lending capacity has not changed much since it requires the long term finance.

**2. Entering into an era of rate war:** Now a days the finance companies have entered into an era of rate war. Many players have started examining the possibility of reducing their interest rates in order to remain competitive in the market place and attract the customers. The ability to get long term funds at cheap rates is an important competitive advantage.

**3. Risk of default:** Since the HFCs are running short of funds, any default by the customers will have the direct impact on the lending capacity of the companies as the fund remain blocked during the period. HFCs are not in a



position to absorb such shocks due to the paucity of funds. However, HFCs have historically had much lower default rates when compared to the banks and other finance companies.

**4. Asset-liability mismatch:** Many of the HFCs are suffering from the asset liability mismatch.

**5. Legal aspects:** The timeliness in legal aspects is having its own significance, but the very backward legal system prevailing in the country creates lot of problems to the HFCs to settle the case in the event of default by customers. It is observed that years together required to settle the case.

**6. High stamp duties:** The very high stamp duty acted as a major hinder to the parties involved in the housing finance.

#### **Problems faced by the housing finance customers**

Some of the problems faced by the borrowers before and after taking loan. Following are the problems faced by borrowers.

**1. Inadequate Assistance:** Finance is an important component of modern society. Without adequate finance any activity cannot run efficiently. Finance is a backbone of any activity. Inadequate financial assistance has made them to approach non-institutional loans i.e borrowing from money lenders, borrowing from relatives and other sources at a exorbitant rate of interest. Considering the above problem 15 beneficiaries accounting for 18.75 percent of the total have stated that the LICHL's made inadequate financial assistance.

**2. Problems relating to other charges:** The borrower has to pay monthly interest/EMI, otherwise extra interest will be charged to them, on the outstanding loan depending upon the loan sanctioned. This is major problem for them, especially for salary holders, if any delay in getting salary they have to pay panel interest. 10 beneficiaries accounting for 12.5 percent of the total has stated this problem.

**3. Collection of documentation:** the problem faced by the customers to relating to collection of documents from different offices. The various documents required for home loan are approved lay out plan, salary certificate, building construction plan approved by corporation or development authority etc. To collect the above documents from different offices is a tremendous job for sample beneficiaries. It takes lot of time and even to some extent money also, this is problem mainly for employee who hardly finds times to visit the offices to collect documents. 17 beneficiaries accounting for 21.25 percent are stated this problem.

**4. Fluctuating housing loan interest rates:** The housing loan interest offered by housing finance companies are varying from one to another and now a day's frequently changing interest rate is confusion to customers to choose housing finance agencies. Though there are two types interest rates offered by housing finance agencies fixed and floating rates, option for the customers but it will difficult to choose suitable option. After one option if customer wants to change floating to fixed or vice versa they have to pay switch over cost. 20 beneficiaries accounting for 25 percent of the total have stated this problem.

**5. Lack of flexibility in payments of loan installments:** Salary people make the payment regarding monthly installment (EMI), but it difficult to pay monthly for businessman and other class of people. So this type of people wants relaxation to make the payments of EMI according to their convenience. 10 beneficiaries accounting for 12.5 percent of the total have stated this problem.



6. **Hidden Costs:** Generally housing loan borrower does not have sufficient knowledge of housing finance and they select randomly one of the housing finance companies. But after taking the loan the borrower has to pay hidden charges such as processing fees, late payment charges pre mature payment of loan, interest rate conversion charges etc. 5 beneficiaries accounting for 6.25 percent of the total have stated this problem.

7. **Lack of reliable information regarding housing finance sector:** It is one of surprising fact that the educated home loan borrower does not make any comparative analysis among different housing finance agencies. Generally they make comparative analysis regarding interest rate, monthly installment and repayment period; they not give concentration to technical details of the housing loan. 10 beneficiaries accounting for 12.5 percent of the total have stated this problem.

### Conclusion

Housing finance in India faced number of problems since inspection of housing finance sector but problems have been reduced compared to earlier days. At present housing finance sector gaining more importance like other financial sectors. This gloomy picture will change if the Government introduces new schemes for lower and middle income group and also government try solve the problems of housing finance Companies and problems of customers.

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