

Impact of Housing Finance in India

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Abstract

The present study is basically an evaluative study of Housing and Urban Development Corporation Limited (HUDCO), The study is undertaken with a view to evaluate the impact of housing finance in India. The shortage of housing in India persists since independence. The total demand for housing is estimated at 0.20 crore units per year and the total housing shortfall is estimated to be 1.94 crore units, out of which 1.28 crore units is from rural areas and 0.66 crore units from urban areas. Therefore, this study helps in evaluation of working of HUDCO. The findings of the study shows that HUDCO helps in removing the housing shortage problems in India

Introduction

In present situation, the mindset of people has been changed to a great extent due to inflation. Now not a palatial accommodation but a small house is perhaps the dream of millions of homeless people. The standard of living can be judged by the adequacy of housing but millions of people are still vagrant in our country. It is well known that the housing problem in India is distressing problem in both rural and urban areas after independence. To overcome this problem some financial institutions are coming forward to provide money to public.

According to Arvind Mannur, "Housing has been one of the important economic activities in India which serves to fulfill many of the plan objectives like providing shelter to the needy, raising the quality of life, particularly of the poor, creating an environment conducive for better health and sanitation, creating additional employment and achieving urban, rural and inter-personal equity in terms of standard of living and above all, generating additional voluntary savings at all levels. Further, housing could lead to the generation of additional savings at all levels. Housing is important to the development at all levels in both economic and welfare aspects. It is not only consumption good but also a productive investment. It is relevant not only in terms of improving the quality of life but also in terms of capital formation by encouraging household savings.

Housing scarcity and lack of decent housing is an international phenomenon. About 25% of the world's population does not have sufficient shelter and thus, live in sub-human conditions. Approximately, 120 million people the world wide, particularly those belonging to the third world countries do not have shelter of any kind whatsoever. Among the democratic countries, the magnitude of housing scarcity probably is the highest in India.

India's progress towards a strategy for housing development started in the 70's. "The housing policies of the government of India have always concentrated on the lowest income households. In the 1970's, a network of state level housing boards was established to develop public land for housing the economical weaker section of the population, with the HUDCO, as an apex institution to provide finance and technological support

The magnitude of housing shortage was estimated by a technical group in the context of formulation of the 11th Five Year Plan. The technical group estimated the housing shortage at the end of the 10th Plan to be around 24.71 million for 67.4 million households. The group further estimated that 99% of this shortage pertains to economical weaker section & low income group sectors. During the 11th Plan, the group estimated that the total housing requirement (including backlog) will be to the tune of 26.53 million units for 75.01 million households. The housing shortage in the beginning of 12th Five Year Plan is estimated at 18.78 million units. According to the report of the technical group for the 12th Five Year Plan, the housing shortage during the period 2012-2017 may not increase if the rate of growth in housing stock continues to be higher than the growth in number of households in the 12th Five Year Plan as observed in the last decade. Apart from housing sector, other critical sectors from the viewpoint of income and employment are the construction and real estate. Government is committed to have Housing for All by 2022 in the area of urban housing shortage. As per estimates by technical group, housing shortage is 18.78 million in 2012.

Housing shortages have been estimated on the basis of the number of households including homeless households, available housing stock, acceptable housing stock, aspects of congestion and overcrowding. Overcrowding and congestion is assessed on the basis of number of living rooms in the dwelling units, number of members and number of married couples in the households. According to the income group the shortage of housing are as follows:

Category	Housing shortage as on 2007 (in millions)
EWS	21.78
LIG	2.89
MIG and HIG	0.04
Total	24.71

This resulted due to the growth of population shift in demographic pattern and rising income of the middle class viz. the availability of housing stock. In order to rectify this mismatch between demand and supply the government encouraged the housing finance institutions and banks (public and private) for bridging the resource gap.

The housing finance sector in India has undergone unprecedented change over the past few years. There are about 276 industries in India, big and small which are dependent on the housing sector. The big ones being cement, steel, paints and colors etc. and the small ones are those who make nuts and bolts, furniture, fixtures and fitting etc. The housing sector has enormous employment potential as the building construction activity is highly labour intensive. Besides, this will generate indirect employment through ancillary activities like brick- making, wood and plywood industry, road transportation and a host of other building material industries. Thus, investments in housing are an important means for the economic up-liftman of the country and helps in creating better employment opportunities.

Present Scenario of Housing Finance Market

With ambitious newcomers giving the incumbent housing finance companies a run for their money, it has no effective hold in the mortgage business. Operating through subsidiaries, such players like State Bank of India, ICICI Bank, IDBI Bank, Canara Bank and others are aggressively pursuing the housing finance business and are increasingly eating into market share of housing finance companies. Banks have the advantage of low cost funds raised through savings and current accounts, while housing finance companies typically depend on term deposits and borrowings from debt market. The cost of funds for banks is much lower than housing finance companies.

Despite intensified competition, most of the larger and established housing finance companies that have already built a critical mass continue to show impressive growth in both their revenues and earnings. But at the same time, the future of smaller and marginal players is doubtful. The smaller players are already being squeezed out of business. The market is large enough for bigger housing finance companies like HDFC and HUDCO which continue growing at decent rates, notwithstanding the onslaught from financial institutions. However, housing finance companies have to focus hard on bringing down their cost of funds to protect their margins. Though larger business are able to access wholesale debt markets and borrow at lower rates from foreign markets, such options are not available for smaller players. The emerging scenario further accelerates the consolidation in the housing finance industry.

Objectives of the Study

The present study is undertaken with an objective of in-depth analysis of HUDCO. This study also aims at identifying ways and means for strengthening the financial strength of the corporation. The following are the prominent objectives of the study:

- To measure and analyze the promotion, establishment, assistance, collaboration of housing and urban development programmes in India and abroad.
- To identify the responsible factor that provides long-term finance for construction of houses for residential purposes or finance or undertake urban development programmes in the country.
- To evaluate the working efficiency of HUDCO

Hypothesis

To study these objectives following hypothesis is “HUDCO is successful in removing the shortage of housing finance

Collection and analysis of Data

For the present study both primary and secondary data were used. Primary quantitative data was obtained through personal visits, interviewed and discussions with senior officials of the concern while the secondary data was collected from the records, reports, websites etc. The data so collected are analyzed by using standard deviations.

Findings of the study

The Government and Planning Commission have given a vital role to the provision of housing finance in India. The RBI has permitted banks to allot 1-1/1% of their incremental deposits for housing finance purposes. The National Housing Bank was set up by the RBI as a fully owned subsidiary. National housing credit fund was started to make fund available to national housing bank for refinance facilities that it makes available to banks, housing finance companies, co-operative housing finance institutions etc. The institutions engaged in housing finance require long-term funds. That's why LIC and GIC have entered in this field as they have the long-term insurance funds with them. Some public sector banks have setup subsidiaries for housing finance purpose.

Plan Outlay in Housing and Urban Development Sector (Rs. in Crore)

Five Year's Plan	Total Outlay	Housing & Urban Development	Share in The Total
First Plan	2,068.80	48.80	2.36%
Second Plan	4,800.00	120.00	2.50%
Third Plan	7,500.00	127.60	1.70%
Annual Plan 1966-69	6,625.40	73.30	1.11%
Fourth Plan	15,900.00	2700.20	1.70%
Fifth Plan	37,250.00	1150.00	3.09%
Annual Plan 1977-80	12,176.50	368.80	3.03%
Sixth Plan	97,500.00	2488.40	2.55%
Seventh Plan	180,000.00	4229.50	2.35%
Annual Plan 1990-92	133,835.00	3000.10	2.24%
Eighth Plan	434,100.00	10500.00	2.42%
Ninth Plan	859,200.00	15880.00	1.85%
Tenth Plan	1,525,639.00	40500.00	2.65%
Eleventh Plan	3,644,718.00	36870.00	1.01%

Sources-mhupa.gov.in (modified)

Since inception, HUDCO has worked on 16,705 projects, with the estimated project cost of Rs. 509,185.31 crore. Total loan amount sanctioned was Rs. 139,216.88 crore include Rs. 4,923.27 crore for HUDCO Niwas with released amount of Rs. 93,193.20 crore include Rs. 4,348.01 crore for HUDCO Niwa still 31st march, 2014. During this period, total numbers of dwelling units constructed were 16,608,311 including 383,627 for HUDCO Niwas and have 649,478 plots. HUDCO, since its establishment till 31st march, 2014, has worked on 1851 projects of urban infrastructure with Rs. 88,889.83 crore which includes 463 projects of water supply with Rs. 19,669.10 crore, 121 projects of sewerage, drainage and solid waste management with Rs. 6,651.14 crore, 373 projects of transportation/ roads/ bridges with Rs. 23,650.11 crore, 113 projects of area development with Rs. 1,656.34 crore, 376 projects of social infrastructure with Rs. 4,975.38 crore and 414 projects of commercial including others with Rs. 32,287.76 crore has been done by the HUDCO for the purpose of urban infrastructure. Since the establishment, HUDCO has contributed a huge amount for rehabilitation housing for natural calamities occur in the country, for earthquake & landslide Rs. 197.45 crore, cyclone Rs. 1,054.17 crore, flooding & sea erosion Rs. 957.74 crore and total Rs. 2,209.36 crore.

As on 31st march 2014, authorized share capital is Rs. 2,500 crores and issued, subscribed & paid up capital is Rs. 2,001.90 crores. HUDCO has created reserves of Rs. 5,121.43 crore and net-worth of HUDCO is Rs. 7,056.77 crore. HUDCO has further been able to mobilize resources from institutional sources like LIC, GIC and banking sector; international assistance (KfW, JBIC, ADB, USAID, etc.). HUDCO market borrowings is Rs. 21,304.75 crore, revenue is Rs. 2,993.85 crore, net profit before tax is Rs. 1061.70 crore, net profit after tax is Rs. 726.34 crore and No. of employees are 916 as on 31st march 2014.

During the year 2013-2014, HUDCO has worked on 134 projects, with the estimated project cost of Rs. 31,887 crore. Gross loan amount sanctioned was Rs. 17,490.94 crore with released amount of Rs. 7,437.50 crore. In this period Rs. 4,028.16 crore has been received as repayment. During this period, total number of dwelling units constructed was 1,434,102 which includes 1,410,942 dwelling units for EVS, 1,020 dwelling units for LIG, 6086 dwelling units for MIG, 15,910 dwelling units for HIG and 144 dwelling units for HUDCO Niwas and have 234 plots.

During the year 2013-2014, total loan amount of Rs. 9,578 crore has been sanctioned for housing purpose and an amount of Rs. 2,544 crore has been released, total loan amount of Rs. 7,848 crore has been sanctioned for urban infrastructure purpose and an amount of Rs. 4,596 crore has been released. In this period company plays a vital role for the development of country in the sector of urban infrastructure for this purpose 5 projects of water supply with Rs. 1,812.19 crore, 11 projects of sewerage, drainage and solid waste management with Rs. 1,764.27 crore, 20 projects of transportation/ roads/ bridges with Rs. 2,120.72 crore, 20 projects of social infrastructure with Rs. 153.98 crore and 16 projects of commercial including others with Rs. 1,996.69 crore has been done by the HUDCO for the purpose of urban development. Thus, HUDCO provided assistance to urban infrastructure 72 projects with Rs. 7847.85 crore. Loan Sanctioned by Housing and Urban Development Corporation Limited during the study period from 2001-2002 to 2013-2014.

**Loan Sanctioned by Housing and Urban Development Corporation Limited
From 2001-2002 to 2013-2014 (Rs. in Crores)**

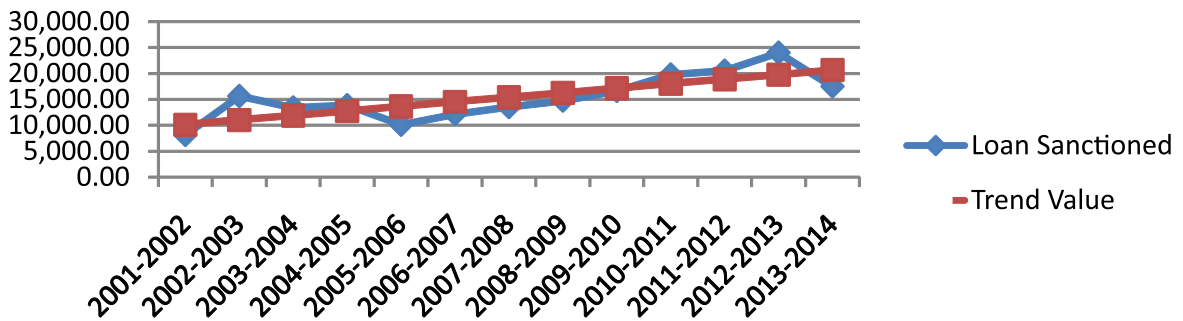
Year	Loan Sanctioned	Trend Value	Indices (Base Year: 2001-2002=100)
2001-2002	8,140.53	10,118.41	100.00
2002-2003	15,627.21	10,995.13	191.97
2003-2004	13,415.31	11,871.84	164.80
2004-2005	13,861.62	12,748.56	170.28
2005-2006	10,099.19	13,625.27	124.06
2006-2007	12,162.55	14,501.99	149.41
2007-2008	13,500.61	15,378.70	165.84
2008-2009	14,754.30	16,255.42	181.24
2009-2010	16,623.76	17,132.13	204.21
2010-2011	19,761.68	18,008.85	242.76
2011-2012	20,511.40	18,885.56	251.97
2012-2013	23,974.06	19,762.28	294.50
2013-2014	17,490.94	20,638.99	214.86
Total	199,923.16		
Average	15,378.70		
Standard Deviation	4,171.24		
Coefficient of Variation	27.12%		

Sources: Annual Reports of Housing and Urban Development Corporation Limited from 2001-2002 to 2013-2014

The table shows efficiency in working of loan sanctioned which is the major aim of HUDCO. This table shows an increasing trend having some fluctuations, during the period of study from 2001-2002 to 2013-2014. The loan sanctioned is Rs 8140.53 crores in 2001-2002 which was increased to Rs. 15,627.21 crore in 2002-2003 after this it shows fluctuating trend till 2005-2006 and after this, it has been continuously increasing till 2012-2013. After this it has decreased to Rs. 17,490.94 crores in the year 2013-2014. The loan sanctioned was Rs. 23,974.06 crores in the year 2012-2013 which is the highest during the study period with an average of Rs. 15,378.70 crores. The standard deviation is 4,171.24 which show higher variability during the entire study period.

The linear least square trend values of loan sanctioned in HUDCO registered increasing trend throughout the study period. The variation between actual and trend values of loan sanctioned is significant in the study period. The variation are positive in the years 2002-2003, 2003-2004, 2004-2005, 2010-2011, 2011-2012 and 2012-2013 while the variations are negative in the residual years which indicates that the HUDCO has not done its work properly.

Loan Sanctioned and Trend Value



Therefore, all the above make it very clear that HUDCO is successful in removing the shortage of housing finance. Hence, the hypothesis is accepted.

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