

HOUSING FINANCE IN KANYAKUMARI DISTRICT- CHALLENGES AND ISSUES

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Abstract :

House is the one of the basic needs. It is linked with the socio-economic development of a country. The housing industry is the second largest employment generator in the country. Housing finance is becoming major issue and major area of operation for corporate in India. The various schemes to suit customer requirement and with attractive interest rates, these housing finance companies are offering most attractive finance options for home seekers. The housing loan is not an easy task for the low and middle income class of people. Housing finance is not a new concept in finance sector of India. It has developed rapidly during last few decades due to the enthusiastic interest of Government to cut-short the housing problem of the country. Although, present environment of finance sector seems to be suitable for uninterrupted growth of housing finance market, but there are few general problems, which create challenges and issues directly and indirectly. This paper is an attempt to reveal such problems and challenges in India.

Keywords: Housing, Finance, Housing Finance, Challenges and Issues.

Introduction:

House is a place strong security, one can save his belonging and other valuables in his home. It is the safest place if it is well equipped. It is a place where one can enjoy complete freedom. It is a place where everyone can relax after returning home from day's tiring work. It is a place where everyone can give time to spend beautiful moments with family. It is the best place for peace of mind. If one has a happy family, then there would be no place other than home for complete peace of mind. Households perform essential functions by continuously solving the problem of allocating the time of their individual members to different tasks, spheres of life and domains of social practice. It is linked with the socio-economic development a country. 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 Banks and Companies in Kanyakumari district.

Research Methodology

The present study is based on secondary data. Secondary data were collected through various research papers, newspapers, journals, websites, books and project reports.

General problems of Housing finance:

The lower or middle-income group population of India is considered to be suffered by the prospects of owning a house due to lack of affordability of big amount in the present time. In the present circumstance, the Government of India is trying to play the role of facilitator by offering a number of housing schemes for different sections of the society, but due to poor administrative control and lack of strong will-power most of the schemes are squeezed only upto the primarily levels and are never attained its ultimate objectives. The basic infra-structural facilities for housing development are not available in most of the areas of the country. Although continuous efforts are made from the side of Indian Government but these are not enough to give a boost to housing industry. The higher income group of society is depending upon the private developers for infra-structural development of residential areas by paying more amounts. What about the middle or lower income group? They are forced to live in unauthorized and undeveloped areas where housing finance facilities are generally not provided by housing finance companies.¹

One of the main problems of housing finance sector of India is non-availability of long-term capital for investment. Traditionally, the funds for the housing sector have come from the individuals themselves by way of their own savings or from the financial institutions that are primarily engaged in the intermediation process of channelizing funds from the savers to the borrowers. However, the funds so mobilized through the formal sector financial institutions remain much lower than what is required to tackle the problems of housing finance in India. Among Indian society, housing is a life-time dream of an individual and a newly employed person can not even image for his own house due to his social and cultural backgrounds. Although this attitude of society is changing from last decade due to development of nuclear families tax rebate on housing loans. The most of the general problems of housing finance sector relate to the Government efforts, cultural attitude of the society and legislative nature require constant and steady efforts to be minimized. The loan tenure opted for has a say when the bank decides the interest rate to be offered to you. Chances are that if you're willing to opt for a longer term, the interest rate offered is lower. The interest charges on your home loan is dependent on the "Fixed" or the "Floating" rate you opt for. The fixed rate is slightly higher than its counterpart.

Types of Interest Rates in Home Loan

There are mainly two types of home loan interest rates charged by most of the banks.²

1. Fixed Interest Rate:

In this system of computation, the rate remains even throughout the loan tenor. There will be no change in the interest charges since the rate remains fixed. Depending on the offer, you may be allowed to switch over to the floating rate system after completing a certain duration into the loan tenure.

Advantage: Since the rate remains fixed, you know how much interest charges you’re paying upfront. Your loan will be shielded from frequent rate fluctuations and saves money in a longer run if there is a hike in lending rates.

Disadvantage: If the standard lending rates fall, you will not benefit since the interest component remains frozen.

2. Floating Interest Rate:

The interest charges on your home loan is subject to the current most lending rates of the bank. The rate is linked to the latest published rate of the bank which in turn depends on multiple factors such as RBI’s monetary policy and lending rate revisions, the bank’s response to the revision etc.

Advantage: The most visible perk of opting for the floating rate is that you have the advantage of being billed on the basis of the latest rate. If the rates fall, you save on interest charges.

Disadvantage: In rare scenario, if the standard rates go up, the loan has to be bear the brunt of being billed a higher rate.

Banking in Kanyakumari District:

The banking scenario in India is at the crossroads and is continuously evolving, but the progress made has been remarkable over the past decade in Kanyakumari district. Retail banking is typical mass market banking where individual customers use local branches of larger commercial banks and offer a variety of services that includes savings and checking accounts mortgages, personal loans, debit cards, credit cards and so forth. Retail banking is a system of providing soft loans to the general public like family loans, house loans, personal loans against property, car loans and auto loans.

Problems of Borrowers Before Availing Loan :

The borrowers face a number of problems while availing loan. Among these problems, 10 important problems are identified. Table-1 deals with such problems faced by the borrowers. The important problems faced by borrowers before availing loan are huge formalities, unfair quantum of loan, high documentation charges and compulsory mortgage of the property. The least problems are long waiting time and unfriendly customer service.³

Table-1
Problems of Borrowers before Availing Loan

Problems faced before Availing loan	I	II	III	IV	V	VI	VII	VIII	IX	X	Total
Insurance of Property	43	61	16	24	7	34	40	21	27	27	300
Lack of Knowledge	36	43	12	41	11	27	18	42	21	49	300
Delay in Disposal of Loan Amount	9	7	55	6	31	20	72	21	47	32	300
Eligibility Criteria	30	58	7	37	46	23	43	66	12	8	300
Higher Down Payment	31	17	27	30	62	6	5	43	16	63	300
Long Waiting Time	16	11	46	20	45	51	6	11	62	32	300

for Processing of Application											
Compulsory securities required	4	13	43	25	19	73	41	18	51	13	300
Guarantor Required	87	55	16	34	23	44	12	17	9	3	300
Indifferent Attitude of Bank Employees	21	24	37	31	40	3	49	32	19	44	300
Huge formalities	23	11	41	52	16	19	44	29	36	29	300
Total	300	300	300	300	300	300	300	300	300	300	3000

To understand the most significant problems faced by the borrowers point systems are adopted. The ranks given by the borrowers are converted into points. Ten points are given for the rank I similarly for the rank II, III, IV, V, VI, VII, VIII, IX, and X rank points 9, 8, 7, 6, 5, 4, 3, 2 and 1 are given. The weighted scores for the problems of borrowers before availing loan are given in Table-3. Table-3 describes the problems of borrowers before availing loan the greatest scores obtained on the basis of points. The problem faced before availing loan "Guarantor Required" stands first with the scores of 2209. The second important problem is "Eligibility Criteria" with 1810 points. The third significant problem is "Insurance of Property". The minor problems are long waiting time for processing of application, compulsory securities requirement and delay in disposal of loan amount. On the whole the guarantor required ranked first.

Problems of Borrowers after availing loan:

The borrowers are confronted with various problems not only in availing loans but also after availing loans from the financial institutions. Such problems faced by borrowers after availing loans are given in Table-2. The important problems faced after availing the loans which are ranked by the borrowers are penalty for payment after due date, charges for fore closure of loan, hidden charges and increasing the interest rate. The minor problems are poor behavior of staff, poor customer service and statement of account not properly given.³

Table- 2
Problems of Borrowers after availing loan

Problems faced after Availing loan	X	IX	VIII	VII	VI	V	IV	III	II	I	Total	Rank
Insurance of Property	430	549	128	168	42	170	160	63	54	27	1791	III
Lack of Knowledge	360	387	96	287	66	135	72	126	42	49	1620	IV
Delay in Disposal of Loan Amount	90	63	440	42	186	100	288	63	94	32	1398	X
Eligibility Criteria	300	522	56	259	276	115	52	198	24	8	1810	II
Higher Down Payment	310	153	216	210	372	30	20	129	32	63	1535	VII
Long Waiting Time	160	99	368	140	270	255	24	33	124	32	1505	VIII

for Processing of Application												
Compulsory securities required	40	117	344	175	114	365	164	54	102	13	1488	IX
Guarantor Required	870	495	128	238	138	220	48	51	18	3	2209	I
Indifferent Attitude of Bank Employees	210	216	296	217	240	15	196	96	38	44	1568	VI
Huge formalities	230	99	328	364	96	95	176	87	72	29	1576	V
Total	3000	2700	2400	2100	1800	1500	1200	900	600	300	16500	

To understand the most significant problems faced by the borrowers point systems are adopted.

The ranks given by the borrowers are converted into points. Ten points are given for the rank I. similarly for the rank II,III,IV, V, VI, VII, VIII, IX, and X rank points 9,8,7,6,5,4,3,2 and 1 are given. The weighted scores for the problems of borrowers after availing loan are given in Table-4.

Table- 3

(Weighted Sources) Problems of Borrowers before availing loan

Problems faced before Availing loan	I	II	III	IV	V	VI	VII	VIII	IX	X	Total
Penalty for payment After due date	92	62	12	7	20	16	6	35	39	11	300
Refinance facility not available	25	14	29	31	49	27	8	3	43	71	300
Uncertainly of interest rate	48	58	36	11	22	23	27	26	20	29	300
Difference in property valuation	37	43	55	17	14	36	26	42	23	7	300
Insufficient loan amount	7	24	23	33	16	42	55	37	32	31	300
Incidental charges	9	17	6	37	57	18	53	46	28	29	300
Higher foreclosing amount	9	13	39	41	42	37	29	30	23	37	300
Negotiating repayment schedule	31	41	52	23	22	22	23	26	27	24	300
Pressure from customer service	29	16	5	56	32	33	36	32	41	20	300
Not prompt in disbursement of loan amount	13	12	43	44	17	46	37	23	24	41	300
Total	300	300	300	300	300	300	300	300	300	300	

Table- 4
(Weighted Sources) Problems of Borrowers after availing loan

Problems faced after Availing loan	X	IX	VIII	VII	VI	V	IV	III	II	I	Total	Rank
Penalty for payment After due date	920	558	96	49	120	80	24	105	78	11	2041	I
Refinance facility not available	250	126	232	217	294	135	32	9	86	71	1452	VIII
Uncertainty of interest rate	480	522	288	77	132	115	108	78	40	29	1869	II
Difference in property valuation	370	387	440	119	84	180	104	126	46	7	1863	III
Insufficient loan amount	70	216	184	231	96	210	220	111	64	31	1433	IX
Incidental charges	90	153	48	259	342	90	212	138	56	29	1417	X
Higher foreclosing amount	90	117	312	287	252	185	116	90	46	37	1532	VI
Negotiating repayment schedule	310	369	416	161	186	110	92	78	54	24	1800	IV
Pressure from customer service	290	144	40	393	192	165	144	96	82	20	1565	V
Not prompt in disbursement of loan amount	130	108	344	308	102	230	148	69	48	41	1528	VII
Total	3000	2700	2400	2100	1800	1500	1200	900	600	300	16500	

Table-4 illustrated the problems of borrowers after availing the loan and the greatest scores obtained on the basis of points. Among the problems faced after availing the loan "Penalty for Payment after Due Date" stands first with the score of 2041. The second important problem is "Uncertainty of Interest Rate" with 1869 points. The third important problem is "Difference in Property Valuation" with 1863 points. The minor problems are non-availability of refinancing facility, insufficient loan amount and incidental charges. On the whole penalty for payment after due date ranked first.

Housing Finance companies– Emerging Risk and Challenges:

The Housing finance Companies are extending loans facilities to its customers very liberally, the possibility of bad loans may become a problem for them in future. If bad loans rises then this would force banks to raise interest rates in the near future. Current pricing of housing loans is based on the assumption that 0.5% of the loans would go bad. But in reality it. is already 1.5% and is set to grow further. Too liberal attitude of Housing finance institutions for extending loans has given the chances of

frauds to emerge in this field. Housing finance assistance from the formal institutions has been limited to middle and high income groups. Companies has not been able to penetrate on rural areas. It is also seen that majority of the financial institutions and banks concentrate on salaried class people who has regular income. Labour class and the income group which do not have proper authentic record of their income regularity feel ignored.⁴

Suggestion of housing finance problems:

To reduce the burden on borrowers it is suggested that processing fee charged by the banks for the processing of the housing finance application, administrative charges and commitment fees should be reduced to minimum. Borrowers should be given the opportunity to design the size and time of EMIs. Prepayment penalty should be waived off. Payment holiday period and repayment period should be increased to facilitate the borrowers. Housing finance should be accompanied with compulsory insurance cover in order to meet the risk owing to some hazard on the property. For the proper functioning and smooth growth of housing finance sector, there is need for considering the interest rate consistently by all banks. Any change in the terms & conditions during the tenure of the loan should be informed to the borrowers. To ensure transparency of transactions, loan accounts should be made online. Loan applications should also be approved online and the reasons for rejection of loan should also be communicated to the applicants.

Conclusion:

From the present study the housing finance in India has more challenges, the housing companies and borrows also in risk condition. According to study these factors are Initial Processing problem, Lack of Knowledge of Staff, Low Service Quality, Poor Communication, Rate of interest, Inflexible provisions, stringent conditions, Insecurity of transactions and hidden costs.

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