INTRODUCTION

India is home to over 1.1 billion people. With about one in every sixth person in the world living in India, housing perforce assumes significant importance. Successive Indian governments have regarded housing as a primary need of the people. The need to provide affordable housing has been the reason behind State interventions in the sector. Housing policies however tended to be framed by the government from a social rather than economic perspective. Despite explicit recognition of the need for housing, dedicated program have only benefited from low public spending. Housing and subsidies have largely synonymous with each other, hence a tendency to view housing finance from the angle of the government’s cash budget, rather than as a developmental activity with tremendous spin-off to the economy.

Every individual household unit desires a home and it is the single largest asset most households invest in. Hence, the cost and availability of housing finance are critical components determining how well housing markets function across the country. Housing needs are strongly influenced by population growth and demographic changes. While in the recent period total population growth has been slowing down, the urban population continues to grow rapidly.

One of the major issues constricting the addition of homes is a string of archaic laws governing the Indian housing and real estate sector. Planning in Indian cities tends to be limited. Few State governments have laid out anything like a Town Planning Act. In its absence, the planning function is disseminated across various State departments with little co-ordination if any. Such departments also lack the resources or training to carry out proper planning, leading to delays and corruptions or approvals.

Formal housing finance in India first came with the setting up of HUDCO in 1971. HUDCO sought mainly to cater to low-income groups, but at the same time provided technical and financial assistance to State Housing Boards, urban development institutions and the cooperative sector.
Pre Liberalization (interest Rates) period Till 1990

Phase I  Before 1970 Government Domination
Phase II  1970 – 1980 HUDCO and HDFC establishes
Phase III 1980 – 1990 Establishment of NHB

Post Liberalization Period 1990 to Present

Phase IV  1990 – 2000 Liberalization of Interest Rate
Phase V   2000 to present High Growth

The Housing finance sector in India has no doubt, experienced unprecedented change in its structure from its formulation stage. The structure of the Indian housing finance market rapidly changed with the arrival of commercial banks in the late nineties. These banks with their aggressive marketing and pricing strategies have now overtaken the housing finance companies in terms of loan disbursements.

With the liberalisation of the housing finance sector and developments like the introduction of mortgage backed securities in the markets, we are increasingly moving towards the market structures which exist in the more mature markets. On the other hand, rapid urbanisation and increasing growth for housing demand is causing housing shortage in India.

Various studies have shown that real estate cycles in developed housing markets of USA and UK are sensitive to the availability and cost of credit. The residential mortgage debt to GDP ratio for the year 2007 was 86.3% for UK, this shows the sheer scale at which these markets function. Even the recently liberalised market of South Korea has a mortgage to debt ratio of 33.4%. In comparison to these markets the mortgage to GDP ratio in India stood at only 4%. With a fast moving economy and growing demand due to higher incomes, the housing finance market in India has grown and changed significantly during the past decade.

Justification

Before the emergence of housing finance in India, provident fund and gratuity amount after retirement was the most popular source upon which people used to rely while considering buying
a home. However, with the introduction and emergence of housing finance as a major business in the country, increasingly large no of people are opting for home loans.

In India, a significant change in social structure has been influencing people not to go for borrowed funds. An upward trend in the family income is not only increasing the purchasing capacity of the people but also raising their repaying capacity. Division of joint family system into nuclear family concept is also imposing pressure to have one’s own house. Continuous inflow of migrants towards urban sector and rapid growth of population has been causing shortage of housing in India.

Housing sector has been given a substantial encouragement by the Govt of India. Increasingly liberal policies have been formulated by HFCs’. There is a progressive fall in the interest rates. To fulfill the housing needs of a common man, satellite towns are being developed in many parts of the country which is ultimately increasing the demand for housing finance. Moreover after analyzing different avenues of investment, people believe that the time tested options of investment like real estate with significant appreciation over the years is safer bet and a safer hedge against inflation. In order to promote economic development, Govt of India has been given priority to the development of housing. Govt has given fiscal concessions to both the providers of the houses as well as to the borrowers.

The National housing policy document estimates the massive housing shortage and the need to invest a heavy amount over 10 Years. Thus there will be a massive flow of funds to the housing sector in the days ahead. Govt of India has been continuously giving encouragement to the housing sector. The spectacular growth in the housing sector has been acting as a catalyst in the growth of the economy and thereby enhancing economic development.

This study has significant role in analyzing the preferences of consumers in selection criteria for housing loan and effects of changes in economic environment on housing loan in Commercial Banks.