REVIEW OF LITERATURE

Empirical studies on operational efficiency of Housing Finance Companies (HFC) are quite rare in India, probably because of the fact that emergence of formal housing finance system has been very late in this country. It was only in 1988 that a formal regulatory system for housing finance emerged in India, when National Housing Bank (NHB) was founded, and a National Housing Policy was formulated for the first time in the history of the country. Most of the HFCs started functioning during that period.

Lall (1984) focused attention upon ‘formal factor’ (Permanent Construction) which served mainly to the HIG and MIG, the loan meets only 47% of the price of the house, forcing the borrowers to make very large down payments. Also the price of a typical house was above 3 times the annual families’ income of the borrowers. In spite of, the entire system of housing allocation and credit the supply of affordable funds was much smaller than demand. Thus, large growth in urban population and the historically low priority given to housing, supply falls very short of demand and need. Therefore, not only that the volume of saving and investments should increase but also larger volumes of capital should flow into housing. Also, accessibility and terms and condition of housing credit will determine the long term redistribution performance in housing.

Joshnu (2001) studied the prospects of the U.S. housing / mortgage sector over the next several years. Based on his analysis, he believes that, there are elements in place for the housing sector to continue to experience growth well above GDP. However, he believes that there are risks that can materially distort the growth prospects of the sector. Specifically, it appears that a large portion of the housing sector’s growth in the 1990’s came from the easing of the credit underwriting process.

Melissa (2002) concluded that public investment in and promotion of homeownership and the home mortgage market often relies on three justifications to supplement shelter goals: to build household wealth and economic self-sufficiency, to generate positive social, psychological
states, and to develop stable neighborhoods and communities. Home ownership and mortgage obligations do not inherently further these objectives, however and sometimes undermine them. The most visible triggers of the recent surge in subprime delinquency have produced calls for emergency foreclosure avoidance interventions (as well as front-end regulatory fixes). Whatever their merit, she contend that a system of mortgage delinquency management should be an enduring component of housing policy. Furtherance of housing and household policy objectives hinges in part. On the conditions under which homeownership is obtained, maintained, leveraged, and in some situations exited. Given that high leverage or trigger events such as job loss and medical problems play significant roles in mortgage delinquency independent of loan terms, better origination practices cannot eliminate the need for delinquency management. In terms of analyzing this framework, it is tempting to focus on its impact on mortgage credit cost and access or on the absolute number of homes temporarily saved, but her proposed analysis is based on whether the system honors and furthers the goals of wealth building, positive social psychological states, and community development. Because those ends are not inexorably linked to ownership generally or owning a particular home, a system of delinquency management that honors these objectives should strive to provide fair, transparent, humane, and predictable strategies for home exit as well as for home retention.

Rao and Pahuja (2005) revealed that during 2002-03 housing loans by banks grew at a hefty growth rate of more than 100%. The factors that contributed to this aggressive growth in the portfolio of housing loans of banks and HFC are: Tax intensives on repayment of principal and interest, rising income level of middle class, falling interest rate, stable real estate prices, easy availability of housing loans, low returns on the investment opportunities available in the market. They also concluded that although there is strong growth in housing loans by financial situations in India, we are still behind the developed countries in terms of housing loans to GDP ratio. In India it is around 2.5% compared to 57% in the UK and 54% in the US. It shows that there is a vast scope for housing loans in India. One economist has argued that every rupee spent on the housing sector will increase the GDP by more than 75 paise. It also creates a labour intensive. Despite the immense growth in housing loans there are certain challenges that the banks might face in the time to come, e.g. falling rate of interest, rising mismatch in the assets and liabilities of the bank, rising NPA in the housing loan portfolio, etc.
Bhalla et al. (2009) showed that the main business of housing finance in India is concentrated around a few players like banks and major housing finance companies. The HH Index as an indicator of market concentration shows increasing trend both on the basis of market share of individual players in disbursement of loans as well as on assets base. It shows decreasing competitive ability of small players. Small housing finance companies are losing the battle to the bigger players. Small players in the sector are facing threat from the banks to capture their share because of their wider network and reach. Growing concentration of major share of housing loans disbursements in the hands of larger banks and giant housing finance companies has forced the small housing finance institutions to identify the challenging areas in this field to capture the future market and ensure their remarkable place. Another aspect regarding the competitive dynamics in housing finance is that the indicators showing HFCs and other players as luring customers to get housing finance are not mainly because of the stiff competition but because of the need to change the attitude of the Indian people towards the phenomenon of loan and to bring them into the formal system of housing finance. In India, even today 60 per cent of the households approach informal sources or financiers to borrow funds, which mean an untapped market for housing finance (Analysts 2001). Housing finance institutions particularly housing finance companies (HFCs) have to spread out geographically while ensuring consistency in the processing and service standards to compete with the banking sector. The performance of these institutions has been influenced by more than just customer demand. Stricter NPA norms, rising interest rates, and stiff competition in mobilizing low-cost deposits have all affected the supply-side factors, which in turn has influenced the performance of these institutions in terms of volume and competitiveness (NHB 2005).

Chandrasekar (2010) tried to analyse the structure of the newly liberalised housing finance market of India and analyse its affect on the Indian housing market. The first section of the paper introduced housing finance markets around the world. The paper analysed the history, structure and current trends in the housing markets of two developed economies namely: USA and the UK. Secondly the paper analysed the interaction of the housing finance market and housing demand in the above countries. A comparative analysis with
international housing finance markets improved our comprehension of the Indian market and the challenges it faces.

The second section of the paper presented a clear picture of the structure, composition and functioning of housing credit markets in India.

The third section of the paper analysed the relationship between Housing finance variables such as House disbursements and Interest rates and Housing demand variables such as Housing sales and Housing demand for a city in India namely; Hyderabad.

The last section of the paper discussed policy initiatives which could help boost the Indian housing and housing finance markets.

Chauhan and Shah (2010) found that housing shortage in India is increasing rapidly, mainly because supply is much less than the housing demands. In urban area, the problem is more complex and complicated as the pressure for houses and services due to both natural increase and migration. The most important resources required to purchase House is finance. Housing plays an important role in a country’s economy, typically accounting for 10 to 20 per cent of total economic activity. In this present paper investigations have been made on all the Housing finance Institutes in India and their mechanism in system.