

A STUDY ON THE ATTITUDE OF BORROWERS TOWARDS HOUSING FINANCE IN SIVAKASI

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Abstract

In highly industrialized economies, the workers' immigration from one city (or country) to another city (or country) is a common phenomenon. In those societies, people prefer to lease a house instead by its acquisition on ownership basis. In pure capitalistic societies, housing finance is used as a mode of long-term investment. In centrally controlled and planned economies, the housing finance is used for planning and development purposes. In the interest-free Islamic economies the housing finance gives an opportunity to the investors and financial institutions to participate in the rental income and capital gains from the properties. It is noteworthy that housing finance is not simply a matter of funds transfer from lender to borrower; it has multi dimensional aspects. No doubt, it has financial importance and the housing finance institutions test the profitability and feasibility of every agreement for housing finance. This study is made an attempt to analyse the profile of the borrowers of Housing finance and their opinion towards housing finance offered by the commercial banks.

Key Words: *Bank, Housing finance, Loan, Attitude, interest rate and investment*

Introduction

Housing Finance is considered as a safest mode of investment for financial institutions. This avenue of investment provides greater flexibility in making financial agreements and contracts, easily adjustable with the Islamic principles, widely applicable in pure capitalistic societies; meet the requirements of strictly controlled economies, and also feasible for the non-traditional immigrants-based societies. In highly industrialized economies, the workers' immigration from one city (or country) to another city (or country) is a common phenomenon. In those societies, people prefer to lease a house instead by its acquisition on ownership basis. In pure capitalistic societies, housing finance is used as a mode of long-term investment. In centrally controlled and planned economies, the housing finance is used for planning and development purposes. In the interest-free Islamic economies the housing finance gives an opportunity to the investors and financial institutions to participate in the rental income and capital gains from the properties. It is noteworthy that housing finance is not simply a matter of funds transfer from lender to borrower; it has multi dimensional aspects. There are several related parties including investors, tenants, town planners and development authorities, local statesmen and politicians, construction and related industries, providers of utility and civic services, local

administration and many other relevant parties. No doubt, it has financial importance and the housing finance institutions test the profitability and feasibility of every agreement for housing finance. Housing has also some socio-economic aspects. Those aspects have great importance in the context of Pakistan, USA, Canada and Israel. The importance of housing finance in Canada and USA is because of the heavy inflow of immigrants. Pakistan and Israel are considered as ideological states and the housing requirements in those countries are directly concerned with the structural changes in the historical population in their geographical locations.

The structure and size of population and housing requirements in those countries were affected when they came into existence. Those structural changes belong to the heavy inflow of migrants from the other parts of the world. Because of this obvious reason, the governments in those countries have been involving in the planning and development of housing finance strategies.

Major Players and Market Shares

Housing finance can be raised from banks, housing finance companies. HDFC dominates the housing finance sector with 45% market share, followed by HUDCO by 21% and LIC housing with 16% share. Other major players include SBI homes promoted by SBI and Can Find homes promoted by Canara Bank- Gujarat Rural Housing Corporation promoted by HDFC. The housing finance industry, encompassing banks and housing finance companies (HFCs), have exhibited a 36 percent growth between April and December 2002 despite the high repayment levels experienced by some HFCs. While banks have not faced significant prepayments in this period, credit rating information services of India (CRISIL) estimates the prepayment levels of HFCs outstanding loans to be about 12-14 percent. The competitive landscape in the sector has changed with banks laying a greater thrust on housing finance resulting intense competition. Banks have an inherent advantage in retail finance, especially in housing loans, because of their lower cost of funds, existing retail relationships in liability products and large branch network. Major banks have overtaken HFCs in the April-December 2002 period, as a result of which they have a higher market share maintain its high growth rates in future given that the key growth drivers, the governments thrust on the housing sector in terms of fiscal incentives for individual housing loans coupled with the demand supply gap in housing, would remain strong.

Housing Finance: A Building Strength

HOUSING FINANCE Companies (HFCs) are building up fast and strong. While most financial sector entities continue to be troubled by poor quality assets, the HFCs are growing fast, and there is unlikely to be declined in the quality of assets. To get an overview of the industry status, consider the growth in disbursements of HDFC and LIC housing finance which account for about 75% of all housing loans. Their disbursements recorded a compound annual growth rate of 28% over the last two years, reflecting the

demand for housing loans. The buoyancy in the industry comes on the heels of a mix of favourable set of factors. A study of these factors would give an indication of the prospectus for the industry.

Statement of the Problem

The commercial banks are providing funds for the construction of house to their customers. However, still they are facing a number of problems in financing the housing projects of customers. Absence of adequate financing arrangements, spiraling land prices in urban areas, difficulties in securing essential building materials are some of the main difficulties faced by the commercial banks. They also face the problem of non availability of building materials, non-recovery of loans from customers, lack of skilled and unskilled labours, increase in the wages and salaries. Again they have to compete with others housing finance companies who have entered into the field of housing finance in recent years on a large scale.

Objectives of the Study

1. To know the profile of the borrowers in the five commercial banks
2. To assess the attitude of borrowers towards the housing finance offered by commercial Bank.

Hypotheses

There is no significant relationship between the income of the respondents and interest charged by the commercial banks. There is no significant relationship between the types of housing loan and the purpose of housing loan.

Methodology

This study has used both primary and secondary data. In order to ascertain the borrowers towards the commercial banks interview schedule has been used. The secondary data were collected from the records of the commercial banks, journals and standard books and websites. The present study covers five commercial banks such as State Bank of India, Central Bank of India, Union Bank of India, Bank of India, and Oriental Bank of Commerce. To study the attitude of the borrowers, 130 respondents have been selected by the convenient sampling method. To study this borrower's attitude about housing finance, chi-square test has been used.

Table 1 Democratic Profile of the Borrowers

Democratic variables	No of Respondents	Percentage to total
Sex		
Male	104	80
Female	26	20
Total	130	100

Age		
31-40	78	60
41-50	26	20
Above 51	26	20
Total	130	100
Marital Status		
Single	10	7.69
Married	120	92.31
Total	130	100.00
Educational Qualification		
Up to High school	65	50
Diploma	26	20
Undergraduate level	16	12
Postgraduate level	13	10
Professional	10	08
Total	130	100
Income level		
Up to Rs.10000	39	30
Rs.10001 - 15000	13	10
Rs.15001 - 20000	10	8
Rs.20001 - 25000	07	5
Rs.25001 - 30000	15	12
Rs.30001 - 35000	20	15
Above Rs. 35000	26	20
Total	130	100
Types of loan borrowed		
Short term loan	07	5
Medium term loan	97	75
Long term loan	26	20
Total	130	100
Purpose of loan		
Construction	117	90
Extension	13	10
Total	130	100
Problems of getting housing loan	06	17
Problem in getting gurantee		
Poor response from employees	03	09
More formalities	15	43
Collateral security	11	31
Total	35	100
Adequacy of loan		
Sufficient	104	80
Not sufficient	26	20
Total	130	100
Opinion about rate of interest		
Normal	78	60
High	43	33
Very high	09	07
Total	130	100

Source: Primary data

Findings

- It is inferred that male respondents utilize the most of the loan amount, because they earn more than that of the female respondents.
- Majority of the respondents are coming under the age group of 31-40 years.
- More than 92 % of the borrowers are married.
- Fifty percent of the respondents have educated up to high school level.
- Most of the respondents are earning the income up to Rs.10000
- It is concluded that 75 percent of the respondents have borrowed medium term loan.
- It is observed that majority of the respondents have borrowed loan for constructing a new house.
- Out of 130 respondents, 35 respondents have faced the problem in getting the loan amount from the banks. It is noted that 43 percent of the borrowers have the faced the problem of more formalities in getting the loan from the banks
- Majority of the respondents felt that the loan amount sanctioned to them is adequate.
- It is understood that majority of the respondents have opined that the interest rate charged for obtaining loan is normal.

Result of Chi-Square test for Ascertaining the Relationship between Income Level of Borrowers and the Rate of Interest

In order to test opinion of borrowers towards the relationship between in the income level and the rate of interest on loan charged by the banks, the researcher has used Chi-Square test. For that he has used the null hypothesis that there is no significant relationship between the income level of the respondents and the rate of interest on loan.

Table - 2

Income Level	Opinion about rate of interest on loan			
	Normal	High	Very high	Total
Up to Rs.10000	10	25	04	39
Rs.10001 - 15000	0	11	02	13
Rs.15001 - 20000	03	04	03	10
Rs.20001 - 25000	05	02	0	07
Rs.25001 - 30000	14	01	0	15
Rs.30001 - 35000	20	00	0	20
Above Rs. 35000	26	00	0	26
Total	78	43	09	130

Source: Primary data

Conclusion

For 12 degrees of freedom at 5% level of significance, the table value is 21.00. Here, the derived calculated value (86.92) is more than the table value (21.00), Hence the

null hypothesis is rejected. Therefore, it is concluded that there is a significant relationship between the income of the respondents and the rate of interest.

Result of Chi-Square test for Ascertaining the Relationship between Types of Housing Loans and Purpose of Housing Loans

In order to test opinion of borrowers towards the relationship between in the types housing loans and the purpose of loan, the researcher has used Chi-Square test. For that he has used the null hypothesis that there is no significant relationship between the types housing loans and purpose loans.

Table - 3

Purpose	Types of Housing loans			
	Short term loan	Medium term loan	Long term loan	Total
Construction	02	89	26	117
Extension	05	08	0	13
Total	07	97	26	130

Source: Primary data

Inference

For 2 degrees of freedom at 5% level of significance, the table value is 5.99. Here, the derived calculated value (32.56) is more than the table value (5.99), hence the null hypothesis is rejected. Therefore, it is concluded that there is a significant relationship between the types of housing loans and the purpose of loans.

Suggestions

1. Some of the borrowers have felt that the rate of interest charged on the housing loan amount is high. So that the commercial banks should reduce the interest rate and provide finance to all customers.

2. Forty three percent of the borrowers have opined that they have faced the problem of more formalities at the time of getting the housing loan. Hence, the banks should simplify the procedure without many formalities for obtaining the housing loan.

Conclusion

Banking industry in India is undergoing a rapid metamorphosis. Their role of traditional banker has been replaced with financial services provider for the clients. Most of the Public Sector Units and private sector banks in our country have already started looking at their portfolio of services offered and what they should do in the future for remaining competitive in the industry. As public sector banks are likely to undergo major consolidation, suddenly for many Indian banks things have changed.

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