

A Comparative Study of Growth and Performance of Housing Finance Companies and Scheduled Commercial Banks on Housing Finance in India

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ABSTRACT

As per as human beings are considered, a house is a symbol of security. Therefore After toiling throughout the day, house is a place where we can learn to seek shelter. Therefore every individual dreams of a house of his own. The number of new houses being built is a good index of countries to prosperity. As far as the common man is concerned, to obtain a dream house is a costly affair. Sensing this pecuniary problem facing the common man many financial institutions have embarked upon housing finance. Commercial banks and housing finance companies are the two important entities competing with each other to attain the national goal of Housing for All by 2022. Commercial banks are on the lead among the formal housing finance sector in India from 2003 onwards followed by Housing Finance companies. Observing their crucial role in the field of housing finance, this study is an attempt to comparatively analyze the growth and performance of housing finance companies and scheduled commercial banks on housing finance in India for the period for 2005 to 2017.

Keywords: Housing, Housing Finance, Commercial banks, Housing finance companies, outstanding housing finance.

INTRODUCTION:

A man spends the lion's share of his life span in his house. Our house occupies an inevitable place in our life as well as in the society; it ensures an individual's personal social and economic security. Buddha once exposed shelter " as the Root of Happiness" and Buddhist philosophy believed that without adequate shelter, a person not completely develops psychologically, academically and spiritually. "Housing is also an investment activity and provides impetus to economic growth. It has both forward and backward linkages. Because of its forward and backward linkages, even a small initiative in housing will propel multiplier effect in the economy through the generation of employment and demand". (Thingalaya et,al, 2009) As per NCAER Study, housing sector accounts for 1% of the GDP as well as 6.9 % of the total employment. Housing was the fourth largest employment generation sector in the country. For every 1 lakh invested in the housing sector, 4 new jobs were created and ₹2.9 lakh got added to the GDP through multiplier effect (NHB Report on Trend &Progress of Housing, 2016).

Housing Finance Sector in India:

Indian Housing Finance sector attained a unique change in its structure and policies from its starting period. At present majority of the banks and housing finance institutions considered housing finance is low risk and fast growing business. The importance accorded to the housing loan is a recent phenomenon in India. In the first 25 years of post independence period government concentrated mainly on agricultural development. After industrial revolution and urbanization trend will increase and urged the housing need in the economy. The

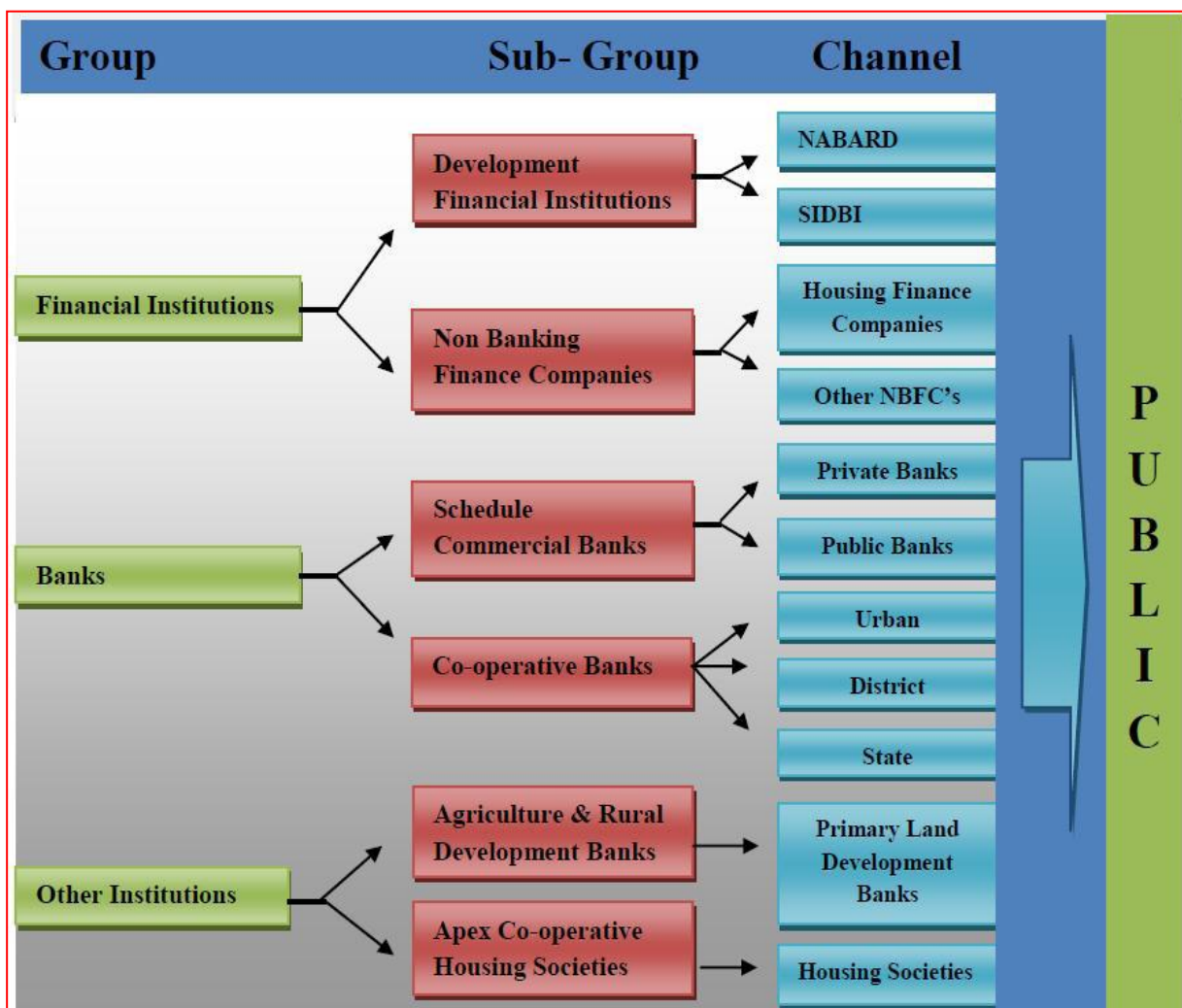
necessitate of improvement in housing sector has been accentuated.

In the early stages of housing development, housing finance has being exclusively government provided service. Although, few Housing Finance Companies (HFCs) promoted by major commercial banks are functioning. The major housing finance companies promoted by commercial banks are - SBI Home Finance promoted by the State Bank of India, Can fin Homes promoted by the Canara Bank, Indbank Housing promoted by Indian Bank etc. housing finance is the major business activity of HFCs. In 1988 National Housing Bank (NHB) was set up to the apex institution for regulating and controlling housing finance companies in the country. Other institutions involved in housing finance are NABARD, Non-banking Financial Institutions (NBFIs), cooperative banks, LIC, GIC, and Employees' Provident Funds etc. But their role is trivial

In India financial sector deregulation was started in 1991, as a part of it RBI recommended commercial banks to enter the main domain of housing finance. Housing finance sector became more competitive after the entry of commercial banks. Commercial banks are on the lead among the formal housing finance sector in India from 2003 onwards, followed by HFCs – the second largest group. Now, housing finance in the country is met by the following group of institutions and the structure of housing finance system in India is diagrammatically depicted in chart 1.1

- Scheduled Commercial Banks
- Scheduled Co-operative Banks
- Regional Rural Banks
- Agricultural and Rural Development Banks
- Housing Finance Companies
- State Level Apex Cooperative Housing Finance Societies

Chart 1: Housing Finance Systems in India

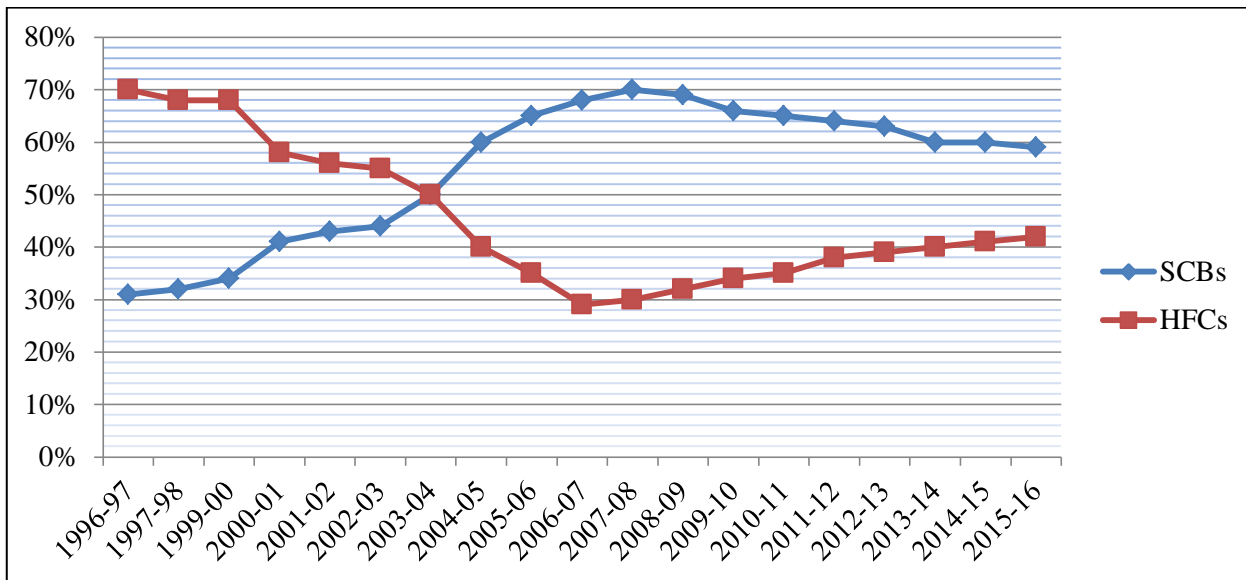


Source: NHB Report on Trend and Progress of Housing in India, 2005

Home Loan Market Share Between Banks and HFC's:

In the initial stages of the housing finance market, HFCs are the leader in the market having a market share of more than 70 %. When commercial banks come into the market the relative share of HFCs came down. Since 2003 onwards, the housing Finance markets grow tremendously. HFCs also increased their market share and acquired second largest group among the housing market in India. The sharing of the housing finance market between the SCBs and the HFCs over the past two decades is shown in the following figure1.2.

Figure 1: Home Loan Market Share between Banks and HFCs



Source: RBI and NHB

REVIEW OF PREVIOUS STUDIES:

Recent housing and housing finance issues are receiving great attention from the side of government and policy makers. There has been vast literature covering this area, let us review some of the research work carried out in this area. Chandrasekar,(2010). Examined the structure and evolution of the housing finance system in India, USA and UK economies. This study also evaluated the performance of major housing finance institutions in India. Shaw (2014)

Studied about the growth of Housing Finance companies in India for the period from 2005 to 2014. Role of commercial banks in tackling the housing problem in India are analyzed by (Shankar, 2014; Manoj, 2016) (Manoj, 2016) in his another study analyzed the significance of Housing Finance Companies to solve the housing problem in India. A detailed analysis of housing finance scenario in India was explained by (Manoj, 2008; Rao and Apparo, 2012) and mentioned about institutional performance of housing finance companies.(Roy and Gupta, 2016) their study critically analyzed the operational performance of Scheduled commercial banks and Housing Finance Companies in India for the period 2010-2014.. The principal variables analyzed are branch networks outstanding housing loans, housing loan disbursement etc. (Kumaraswamy and Nayan, 2014) studied about the importance of marketing of housing finance, marketing strategies of major housing finance institutions and to camper marketing strategies of public and private sector banks in housing finance and found that housing finance companies are not marketing their products properly, the present rate of interest is lower than earlier and Public banks are charging higher interest rate than private banks. The regulatory aspects pertaining to housing finance companies in the light of various directions and guidelines issued by National Housing Bank National Housing Bank (NHB) were examined by (Jasmin et.al, 2012) (Piyush et.al, 2016) explained about the meaning and significance of housing finance and the procedures of home loans it also examined the customers` satisfaction levels towards housing finance banks in India. (Srujanlal, 2017) clearly explained about the policies and procedure for sanctioning housing loans in India.

Earlier literature brings out the fact that there are so many studies held on housing finance by Commercial Banks and Housing Finance Companies in India, but only a few studies on the comparative analysis of performance of Scheduled Commercial Banks and Housing Finance Companies on housing finance. So the present study will help to fill this research gap.

IMPORTANCE OF THE STUDY:

Now- a -days, making a house is a symbol of one's financial soundness. As the housing loan demanded increases in our society, loans lent by the housing financial institutions play a pivotal role in the housing sector. Housing requirement in the country is fulfilled several formal and informal group of institutions. The most prominent group among the formal housing finance sector in India is Scheduled Commercial Banks and Housing Finance Companies. Since not much research work has been done in the area of comparative analysis of housing loans offered by SCBs and HFCs. Hence a study on the role of such institutions in housing finance is the need of the study

STATEMENT OF THE PROBLEM:

Our house occupies an inevitable place in our life as well as in the society. The importance accorded to the housing loan is a recent phenomenon in India. As far as the common man is concerned, to obtain a dream house is a costly affair. Sensing this pecuniary problem, many financial institutions have embarked upon housing finance. Commercial banks and housing finance companies are the two important entities competing each other to attain the national goal of Housing for All by 2022. Commercial banks are on the lead among the formal housing finance sector in India from 2003 onwards followed by Housing Finance companies. With the entry of commercial banks in to the domain of housing finance, Housing finance companies face stiff competition from Commercial Banks. Housing Finance companies are concentrating only on housing finance but commercial banks treated housing finance is only a part of their portfolio along with many other services Observing their crucial role in the field of housing finance, this paper has attempt to comparatively analyze the growth and performance of housing finance companies and scheduled commercial banks on housing finance in India for the period of 2005 to 2017.

OBJECTIVES OF THE STUDY:

The general objective of the study is to analyze the performance of housing finance provided by the Commercial banks and Housing finance companies. The specific objectives of the study are the following:

- (i) To examine the growth of housing finance institutions in India viz., the commercial banks and housing finance companies, and,
- (ii) To analyze the performance of housing finance companies and scheduled commercial banks in terms of their outstanding advances, disbursement of housing loans and the share of housing loan as percentage of total loan portfolio.

METHODOLOGY:

The present study is analytical in nature and it extensively based on secondary data culled from basic statistical returns of Scheduled Commercial Banks in India published by Reserve Bank of India, Various years NHB Report on Trend and Progress of Housing in India, business magazines, journals and research articles. This study covered a ten year time series data for the period 2004-05 to 2014-15. The main variables used in this study are the registered number of institutions, housing loan disbursements, outstanding housing loans and housing loan as a per cent of total loans of Scheduled Commercial Banks and Housing Finance Companies in India. To analyze the data statistical tools and techniques like Graphical method, Percentage growth, CAGR and Analysis of variance were accustomed.

GROWTH AND PERFORMANCE OF SCHEDULED COMMERCIAL BANKS (SCB's) & HOUSING FINANCE COMPANIES (HFC's)IN INDIA:

Registered Number of Institutions:

Growth of SCB's and HFC's in India from 2004-05 to 2015-16 is presented in Table 1.

Table 1: Growth of SCB's and HFC's in India from 2004-05 to 2015-16

Year	SCB's*	Growth %	HFC's	Growth %
2004-2005	284	-	46	-
2005-2006	218	-23.24	46	0.00
2006-2007	179	-17.89	42	-8.70

Year	SCB's*	Growth %	HFC's	Growth %
2007-2008	171	-4.47	43	2.38
2008-2009	166	-2.92	43	0.00
2009-2010	165	-0.60	51	18.60
2010-2011	165	0.00	53	3.92
2011-2012	196	18.79	54	1.89
2012-2013	151	-22.96	56	3.70
2013-2014	146	-3.31	58	3.57
2014-2015	148	1.37	64	10.34
2015-2016	153	3.38	71	10.94
CAGR	-5.47		4.02	

Source: Various Years NHB Reports and RBI Publications

Table 1 reveals that the number of institutions of SCB's shows a decreasing trend whereas the number of institutions of HFC's shows an increasing trend. Growth percentage of SCB's shows a negative value indicates the decreasing in most of the years. CAGR of SCB's for the period 2004-5 to 2014-15 is -5.47. The highest growth per cent (18.79) of SCB's was noticed in 2011-12. CAGR of HFC's for the period 2004-05 to 2015-16 is 4.02. Growth percentage of HFC's proves a positive value signifies the increasing number of institutions with 18.60 (highest) in 2009-10 and the lowest value noticed in 2006-07 (-8.70).

Housing Loan Disbursement:

Now we turn to analyze the housing loan disbursement of SCB's and HFC's from 2004-05 to 2015-16 in table 2.

Table: 2 Housing Loan Disbursement (Rs. Crore)

Year	SCB's	Growth %	HFC's	Growth %
2004-2005	50398	-	26,042.48	-
2005-2006	58623	16.32	27,411.40	5.26
2007-2008	148955	154.09	31295.61	26.61
2008-2009	156599	5.13	33804.5	8.02
2009-2010	71876	-54.10	45,569	34.80
*2010-2011	75171	4.58	55,201	21.14
**2011-2012	73831	-1.78	82,222	48.95
2012-2013	71857	-2.67	110,225	34.06
2013-2014	98787	37.48	133,406	21.03
2014-2015	112364	13.74	121665	-8.80
2015-2016	129727	15.45	160,158	31.68
CAGR	8.98		17.95	

Source: Various Years NHB Reports and RBI Publications

*2006-07 data not available * Loans to individuals only

** Loans to Individuals, Builders and Corporates Housing

Table 2 illustrates that housing loan disbursement of SCB's does not show a linear trend, it oscillates year after year. CAGR of SCB's for the period 2004-5 to 2015-16 is 8.98, indicates an increase in trend. HFC's issued loans to individuals only up to 2010-2011 after that it started to issue loans to builders and corporate. Growth percentage of housing loan disbursement of HFC's also fluctuates year after year. CAGR of HFC's for the above said period is 17.59, shows an increasing trend and it is greater than CAGR value of SCB's. Highest growth percentage of HFC's reported in 2011-12 periods (48.95) and lowest in 2014-15 (-8.80).

Comparison of housing loan disbursement

Bank	N	Mean	Std. Deviation	F	Sig.
SCB	11	95289.82	36675.23	1.967	.175
HFC	11	69188.42	50708.13		
Total	22	81671.69	45549.75		

To know the significance of difference between housing loan disbursement of SCB's and HFC's, analysis of variance was applied. the result shows that average housing loan disbursement of SCB's for the year 2004-05 to 2015-16 is 95289.82 crores with SD 36675.23 and average housing loan disbursement of HFC's is 69188.42 crores with SD 50708.13 crores. ANOVA result indicates there is no significant difference in the average housing loan disbursement between SCB's and HFC's, since the p-value (.175) is greater than 0.05 at 5 percent level of significance.

3) OUTSTANDING HOUSING LOAN

The following table clearly illustrates the outstanding housing loan disbursement of SCB's and HFC's from 2004-05 to 2015-16.

Table 3: outstanding Housing Loan Disbursements (Rs. Crore)

Year	SCB's	Growth %	HFC's	Growth %
2004-2005	126797	-	70533.88	-
2005-2006	182167	43.67	86154.56	22.15
2006-2007	228923	25.67	90179	4.67
2007-2008	248923	8.74	109221.7	21.12
2008-2009	284750	14.39	126823.5	16.12
2009-2010	306307	7.57	153189	20.79
2010-2011	345931	12.94	186438	21.70
2011-2012	378744	9.49	222225	19.20
2012-2013	464711	22.70	290427	30.69
2013-2014	530605	14.18	347858	19.77
2014-2015	639879	20.59	423346	21.70
2015-16	745040.34	16.43	512,589	21.08
CAGR	17.47		19.76	

Source: Various Years NHB Reports and RBI Publications

Outstanding housing loan portfolio of both SCB's and HFC's shows an increase in trend. CAGR value of SCB's for the period 2004-05 to 2015-16 is 17.47 with highest growth percentage noticed in 2005-06 (43.67) and lowest growth percentage noticed in 2009-10 (7.57) where as CAGR value of HFC's for the period 2004-05 to 2015-16 is 19.63 with highest growth percentage reported in 2012-13 (30.69) and the lowest growth percentage was in 2008-09 (16.12).

Comparison of Outstanding Housing Loan of SCB's and HFC's

Bank	N	Mean	Std. Deviation	F	Sig.
SCB	11	373564.78	188069.86	5.128	.034
HFC	11	218248.72	145191.32		
Total	22	295906.75	182458.71		

Average housing loan disbursement of SCB's for the year 2004-05 to 2015-16 is 373564.78 crores with SD 188069.86 and average housing loan disbursement of HFC's is 218248.72 with SD 145191.32. Analysis of variance reveals that there exist significant difference between average housing loan disbursement between SCB's and HFC's, since the p-value (.034) is less than at 0.05 at 5 percent level of significance. Average outstanding housing loan of SCB's is (339794.27), comparatively higher than HFC's (191490.51).

Housing Loan as % of Total Loans:

Housing loan as a percentage of total loans of SCB's and HFC's for the period 2004-05 to 2015-16 is presented in table 4

Table 4: Housing Loan as % of Total Loans

Year	SCBs	HFCs
2004-2005	11%	71.94 %
2005-2006	12.03%	69.51 %
2006-2007	11.76%	81.78 %

Year	SCBs	HFCs
2007-2008	10.28%	72.54 %
2008-2009	10.00%	71.84 %
2009-2010	9.16%	74.73%
2010-2011	8.49%	75.24%
2011-2012	7.89%	73.66%
2012-2013	8.41%	74.43%
2013-2014	8.45%	75.0 %
2014-2015	9.30	75.29 %
2015-2016	9.90	75.26 %
CAGR	-0.95	0.41

Source: Various Years NHB Reports and RBI Publications

The above Table reveals that housing loan as a percentage of total loans of SCB's for the period 2004-05 to 2015-16 shows a negative value signifies the decreasing trend of housing loans. The highest growth per cent (12.03) was noticed in 2005-2006 and the lowest (8.41) was in 2012-13. CAGR of SCB's for the period 2004-05 to 2014-15 is -0.95. In the case of HFC's, housing loan as a percentage of total loans shows a positive value, shows a marginal increase in home loans for the period 2004-05 to 2014-15. The CAGR of HFC's is 0.41.

Comparison of Housing Loan to Total Credit (in per cent)

Bank	N	Mean	Std. Deviation	F	Sig.
SCB	12	9.72	1.36	4671.17	0.00
HFC	12	74.27	2.98		
Total	24	41.99	33.04		

Average housing loan disbursement of SCB's for the year 2004-05 to 2015-16 is 9.72 per cent with SD 1.36 and average housing loan disbursement of HFC's is 74.27 per cent with SD. 2.98 Analysis of variance reveals that there is significant difference between the average outstanding housing loan disbursement between SCB's and HFC's, since the p-value (.00) is less than 0.05 at 5 percent level of significance.

FINDINGS:

To analyze the growth of SCB's and HFC's in the country, the variable used in the present study is the registered number of institutions. Registered Number of Institutions of CB's has gone down from 284 institutions in 2004-05 to 153 in 2015-216, but their performance in overall housing finance business shows an increase in trend. While the number of institutions of HFC's shows an increasing trend, it increased 46 institutions in 2004-05 periods to 71 housing finance companies in 2015-16. Housing loan disbursement of both SCB's and HFC's shows an increase in trend. While analyzing outstanding housing loan of SCB'S and HFC's, average outstanding housing loan of SCB's is comparatively higher than HFC's. HFC's constitute approximately 75 % of housing loans, out of total loans where as Scheduled Commercial Bank's housing loan portfolio constitutes 8% to 9% of their total loans because they considered housing loan as one of their portfolio, due to increased focused on other sectors. But HFC's main concern is in the business of housing loans only.

CONCLUSIONS:

Scheduled Commercial Banks and Housing Finance Companies are two prominent housing finance giants in the country. The construction of qualitative houses in adequate members is an indicator of development of a country. Housing Finance Companies are established solely and exclusively for the housing purpose. Though the number of institutions of commercial banks reduced in numerical terms, in respect of housing market shares the commercial banks have outstripped Housing Finance Companies. They thrive well in the housing finance sector. Presently housing finance is in the ascendant, the competition between these two players and their subsequent growth augur well for the growth in the housing finance sector.

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