Volume : 2 | Issue : 12 | Dec 2013 • ISSN No 2277 - 8160

Research Paper | Management

Performance of Housing Finance Companies in India

Ms. Soniya Mohil Research Scholar, IMSAR , M. D. University, Haryana India

ABSTRACT

Owning a house is the elementary desire of an individual. It is the fundamental requirement for a person. It not only provides a shield to live but also gives financial security for any kind of adverse circumstances. A person can use it as collateral for getting credit from the market. Purchase of a house is normally the priciest transaction for someone in whole of his life on which he spends around ten percent of his yearly earnings. Development in housing industry gives the reflection of a strong economy as economic growth and housing industry have a very sound liaison. Housing Finance Companies play a major role among all housing finance institutions in the enhancement of housing sector. This study is an endeavor to study the performance of Housing Finance Companies in India from FY 2009-19 to FY 2011-12 by reviewing the annual publications of National Housing Bank.

KEYWORDS : Housing Finance Companies, National Housing Bank, Financial Parameters

Housing Finance

Housing Finance Companies (HFCs) are gradually moving ahead due to immense demand, development and pecuniary support. They are not just providing credit for a house but helping the people to fulfill their dreams. HFCs are dedicated towards providing housing loan to the needy people. They are directed and regulated by National Housing Bank (NHB). After commercial banks HFCs are the core players in mortgage lending. As per the report provided by National Housing Bank, 2012 there are 56 Housing Finance Companies in the catalog which are formally registered with NHB. These HFCs are again having set up of 1692 offices opertaing widely in India and covering alsmost every region. Thirty five HFCs have the certificate of registration lacking authority to admit deposits from public. In the retail segment these institutions are having approx thirty to thirty five percent share Categorization of HFCs: For the analysis of the study Housing Finance Companies are classified on three following basis.

- Public and Private Sector Banks
- HFCs sponsored by Commercial Banks and others
- Deposit and Non Deposit Accepting

Review of Literature

Warnock et al., 2008 examined the extent to which markets enable the provision of housing finance across a wide range of countries. Across all countries, controlling for country size, they found that countries with stronger legal rights for borrowers and lenders (through collateral and bankruptcy laws), deeper credit information systems, and a more stable macroeconomic environment have deeper housing finance systems.

Yoko Moriizumi et al., 2008 investigated the housing improvement expenditure as a consumption smoothing strategy for Japanese households. Their findings suggested that: (i) Households in Japan use home improvement expenditure to adjust fluctuation in income. (ii) Income constrained elderly households reduce their housing consumption by not improving their homes ceteris paribus in order to maintain their consumption levels. (iii) The mortgage repayment burden also plays an important role in home improvement expenditure decisions.

Quan Gan et al., 2009 drew a distinction between the concepts of purchase affordability and repayment household and operationalized this distinction in the context of a new methodology for constructing affordability measures that draws on the value-at-risk concept and takes account of the whole distribution of household income and house prices rather than just the median. Empirically they found that the distinction between purchase and repayment affordability can be pronounced.

Alphonce Kyessi and Germain Furaha, 2010 assessed the viability of microfinance institutions (MFIs) in financing housing improvement for the urban poor and discovered that most housing financing initiatives carried out by governments and large financial institutions often end up benefiting the high/middle income segment. Administrative procedures, terms and conditions set up by the government and banking institutions exclude the poor due to their low affordability levels. As the poor cannot meet the set stringent conditions; the MFIs that are growing in numbers in Tanzania and other developing countries have been their alternative strategy for housing finance.

Luca Agnello et al., 2011 looked at the characteristics and determinants of booms and busts in housing prices for a sample of eighteen industrialized countries over the period 1980–2007 and found that housing booms have been amongst the longest in the past four decade. They also explored that domestic credit and interest rates have a significant influence on the probability of booms and busts occurring

Construct of the Study

Objective or research gap: From the review of literature we can extort that housing finance has sought increased attention with the passage of time. Overall emphasis has been given to reforms, affordability, policies of government, housing finance initiatives and factors effecting housing finance. But none of the study has tried to of Housing Finance Companies. This research is one of its types analyzing HFCs.

Sample, data and methodology: The present study adopts analytical and descriptive research design by taking whole population of Indian HFCs. All the HFCs are chosen for the study on the basis of list issued by National Housing Bank of India. Secondary data has been collected from annual publications of NHB.

T-Test: The statistical tool that is used for testing hypothesis and interpreting the results is Student's t-test.

Financial Parameters: In order to study the performance of HFCs the selected financial parameters are Paid up Capital, Free Reserves, Net Owned Fund, Public Deposits and Outstanding Housing Loans

Analysis and Interpretations

Table 1: Key Financial Highlights of Public Sector HFCs

Particulars	2009-10	2010-11	2011-12
Paid up Capital	2055.75	2055.75	2055.75
Free Reserves	3428.32	3931.55	4425.78
Net Owned Fund (NOF)	5461.02	5951.06	6438.98
Public Deposits	5517.63	4661.42	3799.1
Outstanding Housing Loans	9280.09	9357.77	10171.41

Source: Annual Publication of NHB, 2012

Table 2: Key Financial Highlights of Private Sector HFCs

Particulars	2009-10	2010-11	2011-12
Paid up Capital	2834.68	3111.97	3346.77
Free Reserves	23246.51	25726.12	30232.25
Net Owned Fund (NOF)	22719.63	26779.83	30664.04
Public Deposits	21518.13	24032.92	31676.48
Outstanding Housing Loans	143907.64	177080.5	212053.3

Source: Annual Publication of NHB, 2012

Hypothesis Testing

Ho: There is no significant difference between the means of individual financial parameters of public and private sector HFCs.

Ha: There is significant difference between the means of individual financial parameters of public and private sector HFCs.

For hypothesis testing the details are shown in Table 3 & 4.

Table 3: Group Statistics of Public Sector HFCs and Private Sector HFCs

	Type of HFCs	N	Mean	Std. Deviation
Paid up Capital	Public Sector	3	2055.75	0
	Private Sector	3	3097.807	256.3386277
Free Reserves	Public Sector	3	3928.55	498.7367671
	Private Sector	3	26401.63	3541.521252
Net Owned Fund (NOF)	Public Sector	3	5950.353	488.980383
	Private Sector	3	26721.17	3972.529874
Public Deposits	Public Sector	3	4659.383	859.2668103
	Private Sector	3	25742.51	5290.561611
Outstanding Housing Loans	Public Sector	3	9603.09	493.7096945
	Private Sector	3	177680.5	34076.80691

Table 4: Independent Sample Test for Sector HFCs and Private Sector HFCs

		Levene's Test *		t-test**						
			Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95%*	
									Lower	Upper
Paid up Capital	Equal variances assumed							147.9972	-1452.96	-631.151
	Equal variances not assumed			-7.04106	2	0.01958	-1042.06	147.9972	-1678.84	-405.276
Free Reserves	Equal variances assumed	5.203913	0.084674	-10.8835	4	0.000405	-22473.1	2064.874	-28206.1	-16740.1
	Equal variances not assumed			-10.8835	2.079296	0.007265	-22473.1	2064.874	-31040.6	-13905.6
Net Owned Fund (NOF)	Equal variances assumed	3.17175	0.14952	-8.98838	4	0.000848	-20770.8	2310.851	-27186.8	-14354.9
	Equal variances not assumed			-8.98838	2.060591	0.011061	-20770.8	2310.851	-30438.6	-11103
Public Deposits	Equal variances assumed	7.210237	0.054932	-6.81303	4	0.002426	-21083.1	3094.532	-29674.9	-12491.3
	Equal variances not assumed			-6.81303	2.105441	0.018229	-21083.1	3094.532	-33778.8	-8387.45
Outstanding Housing Loans	Equal variances assumed	4.078372	0.113563	-8.54212	4	0.001031	-168077	19676.32	-222708	-113447
	Equal variances not assumed			-8.54212	2.00084	0.013412	-168077	19676.32	-252704	-83451.1

*** For Equality of Variances**
**** For Equality of Means**
*****Confidence Interval of the Difference**

Outlook: We find from the analysis that null hypothesis mean difference for each and every financial parameter is rejected as calculated value of t is less than 0.05. So there exist a significant difference in the mean value of financial parameters of public and private sector HFCS.

Table 5: Key Financial Highlights of Non Deposit Accepting HFCs

Particulars	2009-10	2010-11	2011-12
Paid up Capital	526.87	865.89	1079.11
Free Reserves	626.44	1186.49	1582.57
Net Owned Fund (NOF)	1150.67	2010.3	2558.42
Public Deposits	0.01	0	0
Outstanding Housing Loans	3374.82	7700.54	11584.51

Source: Annual Publication of NHB, 2012

Table 6: Key Financial Highlights of Deposit Accepting HFCs

Particulars	2009-10	2010-11	2011-12
Paid up Capital	4363.6	4301.84	4323.41
Free Reserves	24048.39	28471.18	33075.46
Net Owned Fund (NOF)	27029.98	30720.59	34544.6
Public Deposits	27035.75	28694.34	35475.58
Outstanding Housing Loans	149813.91	178737.7	210640.4

Source: Annual Publication of NHB, 2012

Hypothesis Testing

Ho: There is no significant difference between the means of individual financial parameters of deposit and non-deposit accepting HFCs.

Ha: There is significant difference between the means of individual financial parameters of deposit and non-deposit accepting HFCs.

For hypothesis testing the details are shown in Table 7 & 8.

Table 7: Group Statistics of Deposit Accepting HFCS and Non- Deposit Accepting HFCs

	HFCS Accepting Deposits	N	Mean	Std. Deviation
Paid up Capital	Yes	3	4329.617	31.344321
	NO	3	823.9567	278.49786
Free Reserves	Yes	3	28531.68	4513.8391
	NO	3	1131.833	480.4026
Net Owned Fund (NOF)	Yes	3	30765.06	3757.5073
	NO	3	1906.463	709.59605
Public Deposits	Yes	3	30401.89	4471.5185
	NO	3	0.003333	0.0057735
Outstanding Housing Loans	Yes	3	179730.7	30425.415
	NO	3	7553.29	4106.8253

Table 8: Independent Sample Test for Deposit Accepting HFCS and Non- Deposit Accepting HFCs

		Levene's Test *		t-test**						
			Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95%*	
									Lower	Upper
Paid up Capital	Equal variances assumed							161.806	3056.415	3954.905
	Equal variances not assumed			21.66582	2.051	0.00187876	3505.66	161.806	2825.69	4185.63
Free Reserves	Equal variances assumed	3.259468	0.145323	10.45483	4	0.00047299	27399.84	2620.784	20123.38	34676.31
	Equal variances not assumed			10.45483	2.045	0.00835572	27399.84	2620.784	16359.52	38440.17
Net Owned Fund (NOF)	Equal variances assumed	2.583731	0.183245	13.07154	4	0.00019774	28858.59	2207.743	22728.92	34988.27
	Equal variances not assumed			13.07154	2.142	0.004423	28858.59	2207.743	19939.83	37777.36
Public Deposits	Equal variances assumed	12.11575	0.025334	11.77623	4	0.00029753	30401.89	2581.632	23234.13	37569.65
	Equal variances not assumed			11.77623	2	0.0071338	30401.89	2581.632	19294.02	41509.75
Outstanding Housing Loans	Equal variances assumed	3.240742	0.146203	9.713585	4	0.00062886	172177.4	17725.42	122963.7	221391.1
	Equal variances not assumed			9.713585	2.073	0.00926747	172177.4	17725.42	98423.06	245931.7

*** For Equality of Variances**
**** For Equality of Means**
*****Confidence Interval of the Difference**

Outlook: We find from the analysis that null hypothesis mean difference for each and every financial Parameter is rejected as calculated value of t is less than 0.05. So there exist a significant difference in the mean value of financial parameters of deposit and non-deposit accepting HFCs.

Table 9: Key Financial Highlights of HFCs Sponsored by Commercial Banks

Particulars	2009-10	2010-11	2011-12
Paid up Capital	1390.66	1225.68	2055.75
Free Reserves	952.55	1080.91	4425.78
Net Owned Fund (NOF)	2129.02	2105.38	6438.98
Public Deposits	3667.62	2334.18	3799.1
Outstanding Housing Loans	15844.86	12164.48	10171.41

Outlook: We can find clearly from the above table that there is significant increase in all the financial parameters of HFCs Sponsored by Commercial Banks.

Table 10: Composition of Borrowings by HFCs

Composition of borrowing as on 31st March						
Type of Borrowings	2010		2011		2012	
	Amount	Per Cent Total	Amount	Per Cent Total	Amount	Per Cent Total
Bank Borrowings	70471.39	36.65	89177.73	39.33	100663	36.37
Other Borrowings	94786.89	49.29	108845.39	48.01	140647.1	50.81
Public Deposits	27035.75	14.06	28694.34	12.66	35475.58	12.82
Total	192294.03	100.00	226717.46	100.00	276785.7	100.00

Outlook: Major funding of HFCs comes from financial institutions and banks apart from their personal holdings like debentures, bonds, equities, reserves etc. This single borrowing account for more than 35% during the complete period considered for the study.

Table 11: Growth Rate of Overall HFCs

Particulars	2009-10	2010-11	2011-12
Paid up Capital	1.95	5.67	4.54
Free Reserves	23.8	20.19	16.86
Net Owned Fund (NOF)	26.41	16.15	13.36
Public Deposits	33.21	6.13	23.63
Outstanding Housing Loans	20.79	21.71	19.42

Financial Highlights

- Housing credit folder of HFCs showed about 19% increase in the financial year 2011 from that of previous year.
- Absolute loan portfolio showed the augmentation of around twenty one percent in the financial year 2011-12.
- Residential loan increased by approx. nineteen percent in the same period again facing a small decline in 2012.
- Non-residential credit with a share of around 25% in total loans declined moderately in the fiscal year 2010-11 and again mounted in the following year 2011.
- HFCs with certificate of registration obtained increase of approx. twenty one percent in financial year 2011-12.
- Deposit by public were more than thirty five thousand crore in financial year 2012 with a significant increase of around twenty four percent from last year.
- Residential loans of private sector HFCS in the first quarter were approximately twice than of public sector HFCs crossing two lakh crore.
- Deposit accepting HFCs were significantly lagging behind the non-deposit accepting HFCs on the basis of different financial factors.
- The major funding of HFCs i.e. bank borrowing grew in FY 2011 while decreased in FY 2012.

Recommendations

From this study we see that though the HFCs are performing quite well but they still need to focus on getting more and more public deposits which are being gradually captured by banks. So HFCs need to study the strategy of banks and come up with better practices if they want to be the leaders in housing finance. They are again steadily losing their share in outstanding housing loans. To regain their market portion in this area they should bring more flexibility but within affordable risk area especially for lower income groups.

REFERENCES

• Warnock et al, 2008, Markets and Housing Finance, Journal of Housing Economics 17: 239-251. | • Quan Gan et al, 2009, Measuring housing affordability: Looking beyond the median, Journal of Housing Economics, Volume 18, Issue 2. | • Alphonce Kyessi et al, 2010, Access to housing finance by the urban poor, Tanzania, International Journal of Housing Markets and Analysis, Vol. 3 Iss: 3. | • Luca Agnello et al, 2011, Booms and busts in housing markets: Determinants and implications, Journal of Housing Economics Volume 20, Issue 3. | • Report on Trend and Progress of Housing In India, 2012, National Housing Bank | • Lawrence, Berksmith (1974), The Post War Canadian Housing and Residential Mortgage Markets and the Role of Government, University of Toronto Press, Toronto | • Mishra, Ramesh (1990), "The Collapse of Welfare Consensus? The Welfare State in the 1980s", in Housing the Homeless and Poor, ed. by George Fallis & Alex Murray, University of Toronto Press, Toronto | • Fallis, George (1990), The Urban Housing Market, in Housing the Homeless and Poor, ed. by George Fallis &Alex Murray, University of Toronto Press, Toronto | • Papa, Oscar (1992), Housing Systems in Europe: Part II A Comparative Study of Housing Finance, Delft University Press, The Netherlands | • Smets, Peer (1997), "Private Housing Finance in India: Reaching Down Market?" Habitat International, Vol. 21, No 1 | • Mahadeva, M. (2002), "Canadian Perspectives on Housing Development: Lessons for the Indian Context", Indian Journal of Social Development, Vol. 2, Number 2, New Delhi | • Haibin Zhu (2006), "The Structure of Housing Finance Markets and House Prices in Asia", BIS Quarterly Review, December, pp.55-69. | • Luci Ellis (2006), "Housing and Housing Finance: The View from Australia and | Beyond, Research Discussion Paper, RDP 2006-12. | • Parekh, D (2006), "What Will It Take to Provide Brick and Mortar Housing Everyone in India", Business Today, January, 15, pp.no.8 | |