



Housing Finance in India – Special Reference To Lic

KEYWORDS

Housing, Housing finance, LIC housing, Financial Intuitions, Socio- economic.

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ABSTRACT Shelter is a basic human need. Securing ownership of a house can raise the welfare of households that lives in it and inter alia enhances productivity, efficiency and creatively. Housing Finance is a specialist economic activity is of recent origin in India. The rapid pace of urbanization has serious implications on demand of housing. Besides, Government and the Public Sector Corporations and Financial Institutions granted loans and advances to their employees for house construction purposes. This group includes the insurance sector, namely, the Life Insurance Corporation, General Insurance Corporation and its four subsidiaries, and Commercial Banks. These are general financial intermediaries and lend only a small portion of their funds towards house construction. LIC as a premier financial institution in the country has been engaged in housing activity since 1959, contributing substantially to its development.

INTRODUCTION

Shelter is a basic human need. Securing ownership of a house can raise the welfare of households that lives in it and inter alia enhances productivity, efficiency and creatively. Housing Finance is a specialist economic activity is of recent origin in India. But housing development has been slow. Because housing is a large investment it requires long term finance. Other factors hindering housing development are inflation, interest rate controls, instability of financial markets and the inadequate legal system. Housing in India has been one of the important economic activities which serve to fulfill many of the plan objectives, providing shelter to the needy, raising the quality of life; particularly of the poor, creating an environment conducive for better health and sanitation, creating additional employment and achieving urban, rural and inter-personal equity in terms of standard of living. Further, housing could lead to the generation of additional savings at all levels. Shelter, like food and clothing, is one of the most important inputs to which is profound impact on the socio-economic and physio-psychological development of human beings. Housing is important to development in both economic and welfare terms. It is not only consumption good but also a productive investment.

EVOLUTION OF HOUSING FINANCE IN INDIA

The rapid pace of urbanization has had serious implications on demand of housing. In 1970, the Government of India established Housing and Urban Development Corporation (HUDCO) for accelerating the pace of housing and urban development schemes. A network of the State Housing Boards was created to utilize available publicly owned land and to undertake direct construction of low cost houses. HUDCO provided the necessary technical and financial assistance. Side by side people were encouraged to form Primary co-operative Housing Societies, invest initial capital for land purchase, and then were financed through state level Apex Co-operative Housing Finance Societies, which in turn, were funded by the LIC. Besides, Government and the Public Sector Corporations and Financial Institutions granted loans and advances to their employees for house construction purposes. In 1977, the Reserve Bank of India appointed a working group on Housing Finance to examine the role of the Banking System in providing Finance for housing schemes. 2

GENERAL HOUSING FINANCE INSTITUTIONS

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ROLE OF LIC IN HOUSING FINANCE

LIC as a premier financial institution in the country has been engaged in housing activity since 1959, contributing substantially to its development. As on 31-3-2001, it has contributed a record generating nearly 40 lakh dwelling units throughout the country. Among the formal sector contributor LIC is the largest single contributor to the housing efforts in the Eighth Five Year plan.

LICs contribution to housing activity is on the following grounds.

- Assistance to State Governments and apex housing bodies though bulk loans which in turn helps them to put up housing projects.
- Covering the various segments of the population through their individual housing schemes
- Building the housing projects for the sale for dwelling units to policy holders directly

With a view to accelerating the growth in its housing finance activities

LIC decided to promote a separate company so that Exclusive Attention could be given to the Cause of Providing Housing Finance. As a result, LIC Housing Finance Limited was set upon 19th June 1989, by the LIC with the association of the UTI, ICICI and IFCI.

LIC HOUSING FINANCE CORPORATION

Which originated on 19th June, 1989 is the biggest Home Loan provider and that to attractive rate of interest. LIC Housing Finance Limited provides home loans to Resident Indian as well as Non-Resident Indian along with providing various facilities to their customers and special facilities to NRI's in Gulf region. LIC Housing Finance Home Loan can be availed by Resident Indians and NRI's for several purposes, like purchase, construction, repairing, renovation, or for purchasing plot. Pensioners can also avail the benefits of LIC Home Loans.

With an aim to improve the standard of living of the people, LIC Home Building Loan was initiated. With Wide Financial Network across the nation LIC Housing Finance Corporation India has been serving to customers LIC Housing Finance Interest Rates is different from one city to another city and it varies in accordance with the home loan amount and age of the person.

LIC HOUSING FINANCE LTD (LICHFL)

Is one of the largest providers of housing finance in India

having a network of LIC Housing Finance has one of the most extensive marketing network in India. It has

- 6 regional offices and 115 area offices backed by chain of camp offices nationwide.
- 16 Back Offices spread across the country conduct the credit appraisal and administrative functions.
- One international office at Dubai

The company was promoted by Life Insurance Corporation of India (LIC) in 1989. The company went public in 1994 and launched its maiden GDR offering in 2004. LICHEF enjoys credit rating of 'AAA' from CRISIL for its NCD offerings. The company has recently launched its Fixed Deposit program, which has been accorded the highest rating of FAAA by CRISIL.

IMPROVEMENT IN MARGINS

For the quarter-ended September, every year margins rose from 1.8 per cent to 2.6 per cent on a year-on-year basis, thanks to the rate hike of July, LICHF has close to 90 per cent of loans linked to floating interest rates while about 60 per cent of its own borrowings are also so contracted. What this essentially means is that, even if LICHF re-prices about 60-70 per cent of its outstanding loan portfolio, it is likely to have a positive impact on its margins. A chunk of LICHF funds (over 35 per cent) comes through bank borrowings. Refinancing from the National Housing Bank and debentures account is above 40 per cent. Of late, its dependence on LIC has been reducing and it now forms about 17 per cent of total borrowings.

As sourcing funds is becoming increasingly difficult amidst hardening interest rates, containing costs is likely to hold greater significance for the industry, in general, and LICHF, in particular. Though LICHF has brought down its funding costs over the last couple of years, the weighted average cost at close to 7 per cent remains high compared to the likes of Gruh Finance and HDFC. The company intends raising public deposits to improve its cost structure. Being an NBFC, it has a leeway to raise deposits up to five times its net-owned funds.

DISBURSALS TO PICK UP

LICHFL performance on business disbursements has not been very encouraging. On a five-year CAGR basis, sanctions have growth 25 per cent and disbursements 26 per cent. However, there has been some pressure over the last quarter. Total disbursements fell to Rs. 1,172 crore in September 2006 from Rs.1,236 crore. This was primarily on account of the internal restructuring. In the last three-four quarters, the company was focusing on streamlining its processes and systems that impacted its business operations. With the exercise almost stabilized now, growth is likely to pick up.

The average size of the LICHF loan has also risen from Rs. 5 lakh to about Rs. 6 lakh, but is still below the industry average of Rs. 7 lakh. The improvement has come on the back of a boom in real-estate market and increased exposure to builders. The disbursement-to-sanctions ratio has remained stable at 90 per cent. Any improvement on this front is likely to prove beneficial to the company. Through sharper focus on recoveries and adequate provisioning, LICHF has been able to bring down the level of non-performing assets (NPAs) from over 3 per cent a year ago, to 2.1 per cent now.

The company has provisioning in excess of the mandatory requirement to the tune of 5 per cent. If it manages to sustain the pace of recoveries and prevent fresh non-performing assets, the provisioning levels could remain low, thereby boosting profitability. This would also help it attain the target of one per cent fixed for net NPAs by Financial Year-08.

LIC HOUSING FINANCE PROVIDE LOANS FOR

- Purchase / construction / repair and renovation of new /

existing flats / houses.

- Finance for existing property for business / personal needs
- Loans to professionals for purchase / construction of Clinics / Nursing Homes / Diagnostic Centers / Office Space.
- Loans to Corporate Bodies and Companies under different schemes for purchase / construction of office premises for their own use, construction of staff quarters and also for onward lending to meet the requirements of employees
- Loans to Property Builders and Developers for residential and commercial projects.

ELIGIBILITY CRITERIA

- Minimum age 21 years as on the date of sanction.
- You must be in permanent service or engaged in a profession or business.
- A stable job and regular income.

Loan Amount

The following Housing Schemes are offered by LICHFL

In LIC Griha Prakash scheme, the maximum loan can go up to Rs 1 crore starting from Rs. 25,000. The minimum is Rs.1,00,000 and maximum is Rs.1,00,00,000 for Griha Laxmi. In both cases, the home loan finances go up to 85% of the cost of the property including agreement value, stamp duty and registration charges. For purchase of a site/ vacant plot, the minimum is Rs.50,000 and maximum is Rs. 20,00,000. LIC Griha Sudhar Loan offers a maximum loan amount of up to Rs.10 lakhs and the loan to property cost shall not exceed 85% of the cost of repairs or 25% of market value of property, whichever is lower. The company finances up to 85% of the total cost of the property including Stamp Duty and Registration Charges.

REPAYMENT MODE

Equated Monthly Installments (EMI) Repayment of the loan for resident Indians is permitted for a maximum period of

- 20 years for 'Griha Prakash' or Retirement Age, or 70 years of age, whichever is earliest.
- 15 years for 'Griha Laxmi' and 'Griha Sudhar' or Retirement Age, or 70 years of age, whichever is earliest.

PROBLEMS OF HOUSING FINANCE SECTOR

- The lending policies of the LICHFL allow sanction of housing loans in relation to estimated cost of construction. While sanctioning loans, the LICHFL consider only income which is reflected in official records like salary certificate and income tax returns. As a result, the share of LICHFL in the actual cost of construction is very low. This situation is compelling the house builders to rely heavily on informal sources.
- Majority of the borrowers of LICHFL are facing problems of different in nature. Intensity of problem is felt by the borrowers with regard to rigidity of rules and regulations, offering surety/security, inadequate sanction of loan, delay in sanction, preparation of documents to be submitted along with the loan application and the burden of incidental expenses.
- Housing finance institutions confront with the problem of good and safe customers for housing loans. Recovery of loan installment is also problem for LICHFL to a certain extent.

SUGGESTIONS

1. There is need to modify the policies and relax the rules of LICHFL so as to accommodate the financial needs of house builders from all the categories of population. In this regard, the government and NHB can evolve a sort of credit guarantee scheme to safeguard the interests of the LICHFL.
2. LICHFL are now operating with very thin margins of less than one percent against banks which have about 3 per-

cent margin. In this situation LICHFL have to compete with banks by offering flexible options and quality of service to house loan seekers.

3. In spite of there are problems, the future for housing finance in the country appears bright due to its underlying strength and unlimited demand.

CONCLUSION

LICHFL has to play to vital role towards Indian Housing Finance System to provide Minimum need like Shelter to employees and economically weaker sections. And it is very helpful to development our nation. Housing contributes sig-

nificantly in perpetuating human relationship and promotes the welfare of the members of family in particular and society in general. It plays a crucial role in the economic development of a nation.

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