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An Analysis of Non-Performing Assets of Housing Finance in Andhra Pradesh

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ABSTRACT

This study examines the determinants and characteristics of non-performing assets (NPAs) in housing finance, with particular reference to borrowers and housing-finance managers in Andhra Pradesh. The study uses primary data collected through a pre-designed and tested questionnaire from 200 NPA account holders and 10 managers associated with LIC Housing Finance and HDFC operations, covering rural, semi-urban and urban areas. The analysis focuses on the socio-economic profile of NPA borrowers, determinants of NPAs, the perceptions of housing-finance managers, and measures for minimizing NPAs. The findings indicate that most NPA borrowers in the sample belonged to households with annual incomes between ₹2 lakh and ₹5 lakh, while a substantial proportion had housing loans up to ₹10 lakh. Most reported NPAs were above ₹4 lakh, and most NPA accounts had an age of up to one year. Increasing social expenditure was identified as the most important determinant of NPAs by both borrowers and managers. The first hypothesis, concerning the relationship between household income and the size of NPAs, was accepted at the 0.05 level of significance, while the second hypothesis concerning the relationship between home-loan size and NPA size was rejected. The study concludes by highlighting the need for careful borrower appraisal, continuous loan monitoring, financial counselling and timely corrective measures.

Keywords: Non-performing assets; housing finance; housing loans; borrowers; loan default; financial institutions; Andhra Pradesh

INTRODUCTION

Food, clothing and housing are the three basic necessities of mankind. Among these, housing constitutes a very significant part of the social and physical environment where an individual grows and matures as a good citizen. The importance of housing is universally recognized since the dawn of history. Housing also plays an important role in creating employment, maintaining health and social stability and preserving decent human life. Nevertheless, housing is a living problem for the million shelter - less especially in the developing countries. This is evident from the fact that a large number of people in cities and towns have to live on pavements or improvised huts in unhygienic conditions.

It is estimated that a quarter of the urban population in India is in slums and squatter settlements. The condition in rural areas is also far from satisfactory. The housing inadequacy has both qualitative and quantitative aspects. The problem has been worsening in India owing to rapid increase in population, fast rate urbanization, inadequate addition in housing stock, the steep price rise of land and inadequate investment in other sectors. Housing condition is an important indicator of economic and social evaluation of society. The housing condition of a large percentage of Indian population in towns and villages reflect the lack of availability of houses at affordable rate. The affordability rate is a good measure to evaluate the ease or the difficulty with which houses can be procured. This is determined by computing the ratio of cost of the house to the gross annual income of the average individual. In most developing countries this ratio is close to two. In India, it is nearer to five and in some of the metropolitan cities, high as ten. It would therefore, take decades of saving for a person to be able to afford a house. Urbanization is a worldwide phenomenon and India is no exception. Though India's rate of urbanization is relatively low, the rise and density of population is much larger. It is an acknowledged fact owing to the growth in population. As such, a well coordinated strategy for promoting development of small and medium towns together with a dramatic change in the physical plan in the cities to meet the needs of people in low and middle income groups. Since any declaration of the 'right to housing' is a fundamental right has only a symbolic value, it is immaterial whether the union Government finds the time to come out with such a policy decision. Just as 'right to work' has not solved the unemployment problem, surely another addition to the list of fundamentals rights will not solve an equal problem like

housing. The need for housing has become so acute that all land in the periphery of towns is threatened to be converted to urban land for the construction works. Already, shortages have been in evidence to meet the growing requirements for immigrants and towns are bursting. A house to live is one of the basic human needs. It is fundamental for human beings existence and survival.

Factors Affecting The Growth Of Housing Needs

The transformation of traditional society into a modern and stable society has positively affected the growth of housing needs. The said transformation is depicted as follows:

EXHIBIT-1

Sl. No	From	To
1	Nomadic	Fixed stay
2	Predominance of agriculture	Predominance of industry and service
3	Rural	Urban
4	Low incomes	High incomes
5	Low population	High population
6	Joint family	Nuclear family
7	Unemployment	Employment
8	Low rate of urbanization	High rate of urbanization
9	Human needs are limited and concentrated	Human needs are unlimited coupled with spatial and temporal dispersal

In addition to the above said transformation, the monetary and fiscal policies adopted by the state have also contributed to the growth of housing needs in the country. They include,

1. Decrease in marginal tax rates
2. Decline in the interest rate
3. Affordable property prices
4. Tax benefits and incentives for housing
5. Decline in the ratio of average house costs to annual income
6. Affordable EMI
7. Aggressive tending by banks

Liberalization and privatization of Indian economy have also contributed indirectly to the growth of housing finance needs through the following effects;

1. Soft interest rates regimes prevailing in the economy
2. Growing income level of the consumers
3. High Purchasing Power
4. Buoyancy across all the sectors of the economy
5. Increase in investments
6. Tax incentives by Government
7. Increase in institutional finance

Importance Of The Housing

Housing is considered to be one of the basic necessities of civilized life. It is observed that people having houses are more social, law abiding and conscientious about the inconveniencies of others besides having better health and contended life. A house represents an architectural unit in order to protect vagarious of nature. Housing inter-related with many basic amenities such as water supply, electricity, sanitation, waste disposal, roads, etc. Owned house is considered as reflector leading respectable life. It is the basic unit of an individual in society that segregates him from other and gives him an identity in that locality. Thus, it provides not only the basic need of shelter but also satisfies the other Hierarchical needs such as social needs and self actualization needs.

Housing Finance Markets In India

The Governments' support to housing had traditionally been centralized and directed through the State Housing Boards and Development Authorities. In 1970, the central Government setup the Housing and Urban Development Authorities Corporation (HUDCO) to finance housing and urban infrastructure activities. In 1977, Housing Development Finance Corporation (HDFC) was the first housing finance Company to be set up in India in the private sector. The public sector insurance companies Life Insurance Corporation of India(LIC) and General Insurance Corporation of India (GIC) were also mandated to support housing finance activities, both directly through their housing subsidiaries (both established in 1989)

and indirectly through a mandated requirement to invest a certain proportion of their annual accretion in socially oriented schemes which includes housing.

In 1988, the National Housing Bank (NBH) was established as a 100 percent subsidiary of the Reserve Bank of India, to promote housing finance through refinance mechanism to banks, housing finance companies (HFCs) and other institutions and also to function as the supervisory and regulatory body for housing finance companies, currently there are 29 HFCs approved for refinance assistance from NHB. Although commercial banks were the largest mobilizer of savings in the country, traditionally banks were rather reluctant to lend for housing as they preffered financing working capital needs of industry. Several banks had setup housing finance subsidiaries which functioned as independent units with little support or interest from their parent banks.

REVIEW OF LITERATURE

Rudar Datta[1] has analysed the ineffectiveness of national Housing policy in providing shelters to economically weaker sections. He has observed that the national housing policy could not ensure shelter for economically weaker sections and opined that the problem is essentially the problem of poor and low income groups.

Dr.Asok Kumar[2] highlighted the need and importance of improvement in the delivery system and periodical review of the policy. The author had observed that a good housing policy alone will not ensure good result and it should be coupled with good delivery system. He further observed that the housing finance problems and policies should be reviewed periodically to tackle the problem of shortage of dwelling units in an effective manner.

Dr. Devabratalahari[3] has analyzed the policies and problems of rural housing in India. He made an attempt to evaluate the existing policies and programs with a focus on Indira Awaj Yojana (IAY) and concluded that the said program is effective in providing shelter to weaker sections of the society.

Dr. G. Dhawan[4] has analyzed the magnitude of housing problem in the back drop of phenomenal growth in population. He further suggested various measures to increase the housing capacity of the rural folk.

Dr.K. Tripurasundari[5] has discussed various sources of raising finance for house construction. She made a comparative study of LIC, HFL, Co-operatives with reference to housing finance.

Dr. S.C. Lahari[6] has discussed the effect of raising costs in housing and the need to promote low costs with indigenous resources. It is recommended that the Government should play an active role and provide adequate financial support for rural housing.

Gowrappa, K and Basavaraj, M.[8] have discussed the problem of housing shortage both in rural and urban areas. They have explained the causes for low investment in housing and they have further discussed the problems of housing in terms of both qualitative and quantitative aspects.

Manoj, P.K[9] has made an attempt to study the growth and development of housing finance system in India. He has further attempted to discuss the problems and prospects of Indian Housing Sector and provided suggestions for the development of effective housing system.

Objectives Of The Study

1. To study the socio-economic profile of respondents (NPA Holders) of housing finance.
2. To analyze the determinants of NPAs in housing finances their expectations.
3. To account the managers' version of NPAs in housing finances.
4. To suggest effective measures to minimize NPAs in housing finance.

Hypothesis Of The Study

1. The relationship between income of the households and the size of NPAs in housing finance is directly related.
2. The relationship between size of home loan and the size of NPAs are directly related.

METHODOLOGY

To cover the objectives and hypotheses, the following methodology is adopted.

Sample Design

In order to identify the reasons for NPAs in housing finance 200 NPAs account holders(borrowers) and 10 respondents(managers) of housing finance companies are selected mostly by adhering to the principle of stratified random sampling. The respondents were selected from LIC housing finance company in Andhra Pradesh and HDFC operations in Andhra Pradesh covering Rural, Semi-urban and urban areas. The sample respondents are selected from Visakhapatnam (urban), Sirpur (Kagaznagar of Adilabad District, Kuppam of Chittoor District and Kothagudem of Khammam District.

Scope Of The Study

The current research effort confine itself to the study of the factors responsible for NPAs in housing finances provided by LIC housing finance company and HDFC only. It also focuses on the remedies for the problem of NPAs as perceived by both borrowers and lenders of housing finance. It will not cover the other aspects of housing finance which include rules, laws, regional distribution, social distribution of housing finance, etc.

Sources Of Data

The study is based on both primary and secondary sources of data.
The secondary sources of data included RBI's Reports NHB, LIC housing finance company, HDFC.
The primary data were collected directly from the respondents by administering a pre-designed and tested questionnaire/schedule with regard to the factors responsible for NPAs and remedies.

Limitations Of The Study

- The empirical analysis is based on 200 borrower respondents and 10 managers.
- The study covers selected operations of LIC Housing Finance and HDFC rather than the entire housing-finance sector.
- The geographical coverage is limited to the locations identified in the original project.
- The original document does not specify the exact period of primary-data collection.
- The detailed statistical procedures and supporting tables underlying the reported hypothesis tests are not included in the original manuscript.

RESULTS AND FINDINGS

The principal findings reported in the original study are summarized below.

Variable	Finding	Percentage / Result
Annual household income	Up to ₹2 lakh	9.5%
Annual household income	₹2–5 lakh	59.5%
Annual household income	Above ₹5 lakh	31.0%
Family type	Nuclear family	77.5%
Family type	Joint family	22.5%
Education	Up to undergraduate level	82.0%
Education	Above undergraduate level	18.0%
Average housing loan	Up to ₹10 lakh	57.0%
Average housing loan	₹10–15 lakh	33.0%
Average housing loan	Above ₹15 lakh	10.0%
Average NPA size	Up to ₹2 lakh	12.0%
Average NPA size	₹2–4 lakh	28.0%
Average NPA size	Above ₹4 lakh	60.0%
Age of NPA	Up to one year	77.0%
Age of NPA	Above one year	23.0%

The study identifies increasing social expenditure as the most important determinant of NPAs in housing finance and low rent as the least important determinant. Among managers, increasing social expenditure by borrowers was also identified as the most important determinant, while the perception that penal interest was not very high was reported as the least important determinant.

Major Findings

1. 9.5 Percent of the sample NPA accounts holders are found in the income range of up to two lakh rupees, followed by 59.5 percent are from 2-5 lakh rupees range and 31 percent are from the income range of above 5 lakh rupees per annum. 77.5 percent of the sample NPA accounts holders are from nuclear families and 22.5 percent are from

joint families. 82 percent of the sample NPA accounts holders are equipped with up to under graduation level education and 18 percent are equipped with above under graduation.

2. 57 percent of the sample NPA accounts holders have availed an average housing loan of up to 10 lakh rupees followed by 10-15 lakh rupees by 33 percent and above 15 lakh rupees of loan by 10percent of the house loan beneficiaries. The average size of NPA in housing finances is up to two lakh rupees in the case of 12 percent of the sample NPA accounts holders and the same is 2-4 lakh rupees in the case of 28 percent of the respondents and above 4 lakh rupees in the case of 60 percent of the respondents. The average age of NPA in housing finances is up to one year in the case of 77 percent of the sample NPA accounts holders and the same is above one year in the case of 23 percent of the respondents. The most important determinant of NPAs in housing finances is increasing social spending and the least important determinant is low rent.
3. The most important determinant of housing finances according to managers housing finance banks is increasing social spending of the borrowers and the least important determinant is penal interest is not very high.
4. The first hypothesis "The relationship between income of the households and the size of NPAs in housing finance is directly related" is accepted at 0.05 level of significance.
5. The second hypothesis "The relationship between size of home loan and the size of NPAs are directly related" is rejected at 0.5 level of significance.

Hypothesis Testing

Hypothesis	Reported result	Significance level stated	Decision reported in original study
Income of households and size of NPAs are directly related	Accepted	0.05	Accepted
Size of home loan and size of NPAs are directly related	Rejected	0.5 as stated in the source	Rejected

Editorial note: the original manuscript states a significance level of 0.5 for the second hypothesis. This appears unusual in conventional statistical reporting and should be verified against the original statistical output before journal submission. The study should also report the statistical test used, test statistic, degrees of freedom where applicable, p-value and sample size in the final journal version.

DISCUSSION

The findings indicate that NPA incidence in the sample is concentrated among borrowers with moderate annual household incomes and that a substantial share of borrowers had relatively modest housing-loan sizes. The reported concentration of NPA amounts above ₹4 lakh suggests that repayment stress can be economically significant for the households concerned. The finding that most NPA accounts were up to one year old also points to the importance of early identification and timely intervention in delinquent accounts.

The consistency between borrower and manager responses regarding increasing social expenditure is notable. It suggests that household expenditure commitments may be an important area for closer assessment during credit appraisal and subsequent loan monitoring. At the same time, the reported rejection of the second hypothesis indicates that loan size alone did not show the hypothesized direct relationship with NPA size in the sample. These results should be interpreted within the limits of the sample, institutions and geographical coverage used in the study.

CONCLUSION

Non-performing assets in housing finance are an important issue for both lending institutions and borrowing households. Based on the evidence reported in this study, borrower socio-economic characteristics, household expenditure pressures and repayment conditions are relevant to understanding NPA formation. The findings also show that the size of the housing loan by itself did not establish the hypothesized direct relationship with NPA size in the sample. Effective credit appraisal, continuous monitoring, early corrective action and borrower support can form important components of NPA-management strategies. Because the study is based on a selected sample and an earlier research setting, its findings should be treated as evidence from the study area rather than as estimates of the current national housing-finance sector.

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