
Factors Affecting Housing Loan Decisions of Rural People in Kerala: A Study of Vellarikkundu Taluk in Kasaragod

Soji Sebastian M¹, Karunakaran N²

1. Department of Commerce, EKNM Government College, Elerithattu Nileshwar, Kerala - 671314
2. People Institute of Management Studies (PIMS), Munnad Post Chengala, Kasaragod, Kerala - 671541
Email: *narankarun@gmail.com

Abstract: *Housing Finance plays a vital role as an engine of equitable economic growth through the reduction of poverty and prevents slum proliferation in economy. The demand for housing has increased rapidly day by day. Percentage of families owing house in India is 87 percent. The introduction of banking finance for housing purposes is a big boost to the customers and the economy. It is also linked with other industries like cement, steel, blue metal, and so on. The housing finance decisions of people in rural areas are influenced by a number of factors. They also were facing different problems while getting such loans. Interest rate of the loan varies from institution to institution, the period of repayment of loan ranges between 5 to 20 years and some enjoy tax benefit.*

Key Words: *Housing Loan, Rural People, Interest Rate, Source of Fund, Tax Benefit.*

1. Introduction

Good housing is a pre-requisite for human development and welfare. It provides shelter, security, amenities and privacy to the human beings for decent living. Without good housing, people cannot realize their full potential and carry on the life they want to lead. Good housing reflects the general welfare of the community, whereas bad housing leads to serious consequences such as diseases, immorality, and juvenile delinquency. Deprivation of a decent housing, in fact, becomes a threat to social harmony and economic

prosperity (Sivaramakrishnan L and Swaminathan TM, 2014). 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 (Madhav Rao, et. al, 2015). Recognizing the critical importance of human settlement in developing countries, the Universal Declaration of Human Rights and the International Covenant on Economic, Social and Cultural Rights, have recognized the right to housing as a human right. Since then, there has been a growing concern to address various forms of housing deprivation particularly in developing countries, where with the growing population pressure, meeting the housing needs of all families is a real challenge. In India average percentage of families having houses is 86.6 percent only (table 1).

The demand for housing has increased rapidly due to population growth, migration from rural areas to urban areas, the decay of the existing housing stock and breakdown of traditional joint families. The information technology revolution and rapid growth of knowledge based industries in recent years have also further contributed to the already growing acute shortage of housing in India particularly in urban areas (Rose Peter S, 2016). Since housing requires huge investment, a critical constraint for the development of housing is lack of finance. With the entry of commercial banks into housing finance, the housing sector has witnessed real boom during the last decade. The growing demand for housing finance has contributed for rapid growth of banks' lending to housing sector. Housing finance has received a boost since the establishment of National Housing Bank by the Reserve Bank of India in 1988. On the demand side, housing being a basic need of the growing population, the strategic role of the house building industry and the bulging demand for housing finance cannot be under-estimated. A large section of the population in rural and semi-urban areas is still beyond the reach of the banks. Banks also are concentrating in urban and metropolitan centers, where the demand for housing finance is strongly supported by the builders. On the supply side, public sector banks are the major source of housing finance having share of 63 percent. The share of private sector banks-both of the older and younger generations is 26 percent. Foreign banks, though quite active in extending housing finance, their share is about 9 percent only. Gramin banks have a negligible share at less than 2 percent.

Table 1. List of states ranked in order of percentage of families owning a house in India.

Rank	States	Families owing Houses (%)
1	Bihar	96.8
2	Jammu and Kashmir	96.7
3	Uttar Pradesh	94.7
4	Manipur	93.6
5	Rajasthan	93.2
6	Tripura	91.9
7	Madhya Pradesh	90.9
8	Kerala	90.7
9	Odisha	90.4
10	Chhattisgarh	90.2
11	Jharkhand	89.3
12	West Bengal	89.3
13	Punjab	88.9
14	Haryana	88.4
15	Assam	88.4
16	Himachal Pradesh	87.2
17	Gujarat	83.9
18	Uttarakhand	82.9
19	Meghalaya	82.0
20	Maharashtra	81.1
21	Goa	78.9
22	Andrapradesh (including Telungana)	78.5
23	Tamil Nadu	74.6
24	Karnataka	74.3
25	Nagaland	73.8
26	Arunachal pradesh	68.3
27	Mizoram	65.8
28	Sikkim	64.5

Source : Census Report, GOI

2. Review of Literature

Housing finance all over the world are undergoing tremendous changes and have acquired great significance in the present day context of liberalization, globalization and modernization of the society. Ananda Bose, C.V (2006) emphasized the need for propagating cost-effective and environment friendly building technology. Sivaramakrishnan L and Swaaminathan TM (2014) analyzed the magnitude of housing problem and procedural simplification of housing loans. Rose Peter S (2016) observed the views that there is a vast scope for housing promotion in India. Madhav Rao, et. al (2015) observed the housing shortage in the country and highlighted the role of HFIs in national housing.

3. Materials and Methods

Housing is one of the essential needs of mankind. The demand for shelter grows in line with the increase in population and the standard of living and the need of financing the purchasing of a house is quite relevant.

The present study thus mainly focused on:

- i. To find out the main factors affecting housing finance decision of rural people
- ii. To find out the problems of housing finance of rural people
- iii. To find out the tax benefit available by rural people through housing finance and the major source of funds to refinance housing loan.

Both primary and secondary data were used. Primary data were collected from a sample of 30 rural people of Vellarikkund Taluk of Kasaragod in Kerala. Secondary data were collected from journals, and related websites.

4. Results, Analysis and Discussion

4.1. Institutions in Housing Finance: Of the various institutions, 50 percent are nationalized banks, followed by Cooperative banks, 40 percent and other financial institutions 10 percent (table 2).

Table 2. Institution Involved in Housing Finance

Institution	Percentage
Nationalized banks	50
Co-operative banks	40
Others	10
Total	100

Source: Primary Data

4.2. Factors Affecting Housing Finance: Rate of interest of housing loan is one of the influencing factors that decide the house financing decision of an individual. Interest rate of housing loan ranged from 8 to 12 percent. Table 3 depicts, various factors affecting rural people while selecting housing finance. Long period for repayment of housing loan is the main attracting factor (28 percent), followed by easy accessibility (20 percent), friendly terms and conditions (18 percent); speed of loan and low interest rate (10 percent).

Table 3. Factors Affecting Housing Finance

Factors	1 st rank	Points = 6	2 nd rank	Points = 5	3 rd rank	Points = 4	4 th rank	Points = 3	5 th rank	Points = 2	6 th rank	Points = 1	Total	Rank	%
Low interest rate	0	0	1	5	3	12	4	12	9	18	13	13	60	6	10
Long period	27	162	3	15	0	0	0	0	0	0	0	0	177	1	28
Friendly terms	0	0	7	35	13	52	8	24	2	4	0	0	155	2	18
Easy accessibility	3	18	12	60	8	32	4	12	3	6	0	0	128	3	20
Speed of loan	0	0	2	10	2	8	4	12	9	18	13	13	61	5	10
No hidden charges	0	0	5	25	4	16	10	30	7	14	4	4	89	4	14

Source: Primary data

4.3. Interest Rate of Housing Loan: Interest rate of housing loan ranged from 8 to 12 percent (table 4).

Table 4. Interest Rate of Housing Loan

Rate of interest (in percent)	Percentage
Below 8	23
8-10	57
11 – 12	20
Above 12	0
Total	100

Source: Primary Data

4.4. Repayment Period: Period allowed for the repayment of loan is another deciding factor. Repayment period for 50 percent of the respondents is 15 years (table 5).

Table 5. Repayment Period of Loan

Repayment period (in years)	Percentage
5	20
10	7
15	50
25 and above	23
Total	100

Source: Primary Data

4.5. Source of Fund for Repayment of Housing Loan: For repayment of housing finance 40 percent of rural people depend on self employment. Table 6 shows that other source of fund used for repayment of housing loan is employment and income from abroad; 20 percent each.

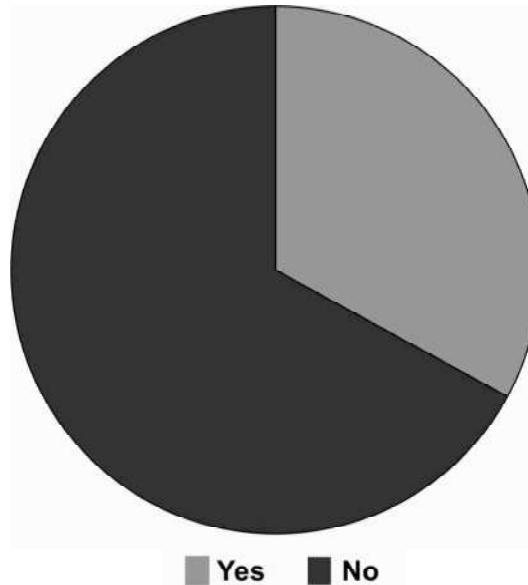
Table 6. Source of Fund for Repayment of Housing Loan

Source of fund for repayment	Frequency	Percentage
Selfemployment	12	40
Employment	6	20
Profession	5	17
Income from abroad	6	20
Others	1	3
Total	30	100

Source: Primary Data

4.6. Tax Benefit to the Borrower: One of the main benefits of Housing loan finance is the income tax deduction enjoyed by the borrower. In rural area employment and salary is limited and only few (33 percent) of them enjoy tax benefit (figure 1).

Figure 1: Tax Benefit Received by the Borrowers



Source: Primary Data

4.7. Problems of Housing Finance: Getting Housing loan from financial institutions involve various procedural aspects and documents. The major problem for raising housing finance by the rural people is demand for number of documents (33 percent). Another major problem is lengthy procedure (24 percent) followed by Penal interest (17 percent), demanding collateral security (16 percent) and High EMI (10 percent).

Table 7. Problems of Housing Finance

Problems	1 st rank	Points	2 nd rank	Points	3 rd rank	Points	4 th rank	Points	5 th rank	Points	Total	Rank	%
Lengthy procedure	0	0	20	80	7	21	3	6	0	0	107	2	24
High EMI	0	0	0	0	6	18	4	8	20	20	46	5	10
Number of document	30	150	0	0	0	0	0	0	0	0	150	1	33
Collateral securities	0	0	4	16	8	24	12	24	6	6	70	4	16
Penal interest in default	0	0	6	24	9	27	11	22	4	4	77	3	17

Source: Primary Data

5. Conclusion

The housing finance system in rural area is still in its nascent stage. It has to cross many hurdles before it can become an effective instrument for solving the housing crisis presently faced by rural people. In order to overcome the inadequacies and deficiencies of the existing housing finance system in rural area, an improved housing finance schemes should be introduced. As effective affordable housing finance system would call for innovative strategies including flexible lending, norms and minimal transaction costs which could be achieved by providing institutional finance through a network of specialized home loan institution at the grass-root level especially in rural area.

References

- Ananda Bose, C.V. The Holistic Role of an Architect in Cost Optimization for Affordable Housing, *IJERT*, 5 (7): 6-16.
- Madhav Rao, Murthy, A.G., Annamalai, G. (2015). *Modern Trend in Housing in Developing Countries*. Oxford and IBH Publishing Company, New Delhi, 341.
- Rose Peter, S. (2016). *Commercial Bank Management*, (4th Ed.), Irwin / McGraw - Hill, Boston, USA, 39-45.
- Sivaramakrishnan, L., Swaaminathan, T.M. (2014). Consumer Preference for Housing Loan between Old and New Generation Commercial Banks in Kanchipuram, India, *International Journal of Current Research and Academic Review*, 2 (1): 30-40.