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DYNAMICS OF INDIAN HOUSING FINANCE INDUSTRY AND FINANCIAL LITERACY: AN ASSESSMENT AFTER GLOBALISATION

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ABSTRACT
In the post-liberalization era Indian housing finance industry has registered unprecedented growth. Housing finance in India has evolved in three distinct phases. The first phase occurred before the 1970s when the government, through its various social schemes for public and low-cost housing, was the sole provider of housing finance. Housing finance through recognized institutions was relatively non-existent in India till 1971. There were few takers for housing finance in the country. Hardly 10 per cent of the houses were built or purchased through institutional agencies and the rest 90 per cent were dependent on people's own savings and borrowings from friends and relatives.
KEY WORDS: Formal System, Customized finance, Financial Literacy

In India, where nearly one-fourth of population is illiterate and below the poverty line, ensuring financial inclusion is a challenge. The two indicators, poverty and illiteracy, vary widely between different States in India. Rural poverty is above 30 per cent of population in places such as Assam, Bihar, Madhya Pradesh, Uttar Pradesh, Orissa, Jharkhand, Chhattisgarh, and Manipur. Rural poverty can be attributed to lower farm income, lack of sustainable livelihood, lack of skills, under employment and unemployment. Thus, ensuring deposit operations in these accounts is a challenge.

There is aggressive campaign on the part of banks and HFCs to provide home loans to more and more customers. These HFCs are adopting aggressive strategies like tele-marketing, engaging direct sales agents, conducting exhibitions and loan melas, besides offering softer terms of repayment, enhanced quantum of loans, taking over the loans of other banks/HFCs, shifting of loans from fixed rates to floating rates and vice versa. Now the financiers are more willing to finance the entire house, even including the furnishings. A few years ago, the word mela in India meant a village fair, a place where artisans displayed and sold their wares to villagers. Today, India's consumer banks and property developers in urban and suburban India use the same word to sell and finance dreams. In the past years, home loan melas have been sponsored by a dozen Indian banks and have been held in every major Indian city. The biggest reason for the surge in home loans is the supply side economics. 'Banks are flush with funds, and they find it attractive to lend in the mortgage market' (Diamond and Nayyer-Stone 2001). Historically, this segment had a very low rate of non-performing assets--below 1 per cent--and that is an added attraction. Banks and financial institutions have brought a sea change in their strategies and there is a clear shift from sellers' market to buyers' market. It is also worth noting here that development banks such as Industrial Development Bank of India (IDBI) and Industrial Finance Corporation of India (IFCI), whose task was to lend to industry for projects, are in terminal decline. Industrial Credit and Investment Corporation of India (ICICI) has merged with its own banking arm, and has become a bank, plugging consumer loans (including housing) rather than industrial finance. Banks and HFCs are offering attractive loan schemes with so many lucrative add-ons to the customers. The main features of these loan schemes are consumer flexibility, adjustable rate plans, lower processing fees, low equated monthly installment (EMI), lower margin money, no prepayment penalty, etc. Many of the players of housing finance have offered some add-ons with their loan plans such as life insurance, credit card, and consumer loans. Some of the players have offered tailor-made loan schemes for repair, renovation, extension, conversion, improvement, waterproofing, roofing, painting, plumbing and electrical work, tiling, flooring, and grilling, etc. In order to increase the market share, lending institutions are competing with each other by offering very attractive terms to customers in the form of lower rate of interest, liberal collateral requirements, longer repayment period, or a very high 'loan to value' (LTV) ratio which at times goes up to or even beyond 100 per cent of the value of the house including the cost of land. In recent years, lending institutions also introduced floating-rate products, besides the fixed-rate ones, with the option available to the borrower for conversion against a nominal payment. Besides, the speedier processing and disbursement, efficient advisory services, waiver or reductions in associated up-front fees have also become common tactics of market acquisition (NHB 2003). Acute competition has made 'housing finance at doorstep' possible with customers having a wide variety to choose from.

According to the National Statistical Survey's (NSS) 44th round of survey, more than 80 per cent of housing finance comes from private savings, sale of assets, and non-formal sources of credit (Biswas 2003). Earlier it was considered socially unviable to borrow funds. There has been an evident shift in perception and mindset in the Indian middle class over the last five to ten years, thanks to the impact of liberalization and opening up of the Indian economy, a rise in average income across households, and a palpable desire to own things 'now' (Prashat 1998). The most crucial aspect of this 'shift' in the consumer's mindset is perhaps explained by the fact that the young (or Generation Next) are more in charge of their lives and eager and impatient to assume the world. It is a generation that is independent, self-reliant and nuclear in nature. And it is this eagerness to succeed that has fuelled a drive to own what one desires the most: a home, a car, and a healthy lifestyle. Other drivers have been incentives from the government to buy homes, improved quality of buildings and property services, and a bouquet of financial options. Tax concessions, property price dips, and lower interest rates have also helped. But what has helped more is the change in consumer's mindset over a 'loan' being a stigma, the extra freedom of making an informed choice, and flexible and customized finance options coupled with mutual trust (Karnad 2004a).

In the second phase formal system of housing finance was originated in India in 1971 with the establishment of the Housing and Urban Development Corporation Limited (HUDCO) in the public sector. HUDCO provided technical assistance to state-sponsored undertakings, housing and urban development institutions, and the cooperative sector. HUDCO was established at a time when the country was facing the problem of growing housing shortage and restricted availability of bank credit to this sector. Major objectives of establishing HUDCO were to enhance the residential housing stock by providing an avenue for housing finance on a systematic and professional basis and to increase the flow of resources to this sector by integrating the domestic housing sector with the capital market. However, HUDCO's role was that of a wholesaler which financed the public housing agencies rather than individual. In 1977, the Industrial Credit and Investment Corporation of India (ICICI) took the initiative and set up the Housing Development Finance Corporation (HDFC) in collaboration with the International Finance Corporation (IFC) and the Agha Khan Fund. HDFC was the first primary housing finance institution in this private sector at that time. At that time, this business was looked at with great skepticism. No one so far had experimented with retail housing finance in the country; there was no access to long-term domestic resources; nor was there a legal system to support foreclosure. It is of course a different story that HDFC was successful and even the World Bank has referred to HDFC as a model housing finance company for developing countries.

Although commercial banks were the largest mobilizer of savings in the country, traditionally banks were rather reluctant to lend for housing, as they preferred financing the working capital needs of industry. In January 1977 the Reserve Bank of India set up a working group on the role of banking system in providing finance for housing schemes. The working group in its report submitted in January 1978 recommended that commercial banks may be asked to earmark certain amount every year for housing sector which may vary depending upon the resources of the banks and the absorptive capacity of the sector. The group also recommended that the bulk of the bank's housing finance should be routed through intermediaries. It was also recommended that it might be left to the bank concerned to decide about the proportions of direct and indirect finance. Based on the recommendations of the working group in May 1979 Reserve Bank of India (RBI) issued detailed guidelines to scheduled commercial banks (SCB) for housing finance (GOI 1996). Initially, it was desired that the banking system should provide housing finance to the extent of Rs75 crore per annum, which was only 0.5 per cent of the total advances of the commercial banks at the end of December 1978. Banks were also given freedom to decide the proportion of housing finance to be financed directly or indirectly. In June 1981 the limit was enhanced to Rs100 crore per annum, which constituted approximately 0.43 per cent of the total advances of all SCBs at the end of 1980. In October 1982, RBI further enhanced the quantum of funds for housing sector to Rs150 crore. In March, 1988 the limit was enhanced to Rs225 crore, which was further enhanced to Rs300 crore by the end of 1989.

The Government of India established a high-level group in 1986 to address the housing problem in the country. The group recommended that a network of specialized housing finance institutions be created to mobilize additional savings and provide financing for housing construction. Two types of institutions were envisaged as belonging to this network: local-level institutions, which would mobilize household savings and provide home loans, and regional institutions of the type of Housing Development Finance Corporations with wider territorial jurisdictions, which would mobilize household savings and provide housing finance to middle- and higher-income groups (Garg 2002).

In 1987, existing insurance legislations were amended to allow the Life Insurance Corporation of India (LIC) and the General Insurance Corporation of India (GIC) to directly issue mortgage loans (Mishra 1997). Till 1988, HDFC was the only formal housing finance company operating in India. It was after 1988 that banks and insurance companies entered this sector.

The governmental efforts towards the development of a sound regulatory mechanism for housing finance in India can be traced back to 1987 when the government came out with a National Housing Policy. A revised version was tabled in Parliament in 1992 and adopted by both Houses of Parliament in August 1994. This document forms the nucleus of the policy framework for the housing sector. It envisages the removal of legal and regulatory constraints on the creation of a secondary market on housing loans.

As per one of the directions of the above policy, the National Housing Bank Act was enacted by Parliament in 1987. The National Housing Bank (NHB) has been mandated to establish a network of housing finance outlets across the vast span of the nation to serve different income and social groups in different regions. One of the fundamental ideas behind the creation of NHB in 1988 as the apex institution for the housing finance sector of the country was to facilitate development of a sound, healthy, and sustainable housing finance system (NHB 2000). After the beginning of the liberalization process in India, the government has taken so many measures to promote housing finance from the formal sector and share the task of providing of housing finance with the private sector. Linking with global scenario the policies of the Government of India have started showing a shift in approach towards housing finance. In the post-liberalization era housing finance industry has registered an unprecedented growth. The value of total residential mortgage debt moved up from USD 1.84 billion in 1994 to USD 12.26 billion in 2004, at a compounded annual growth rate (CAGR) of 21 per cent. The industry has recorded a robust growth in the last five years, clocking an annual growth rate of about 40 per cent between the financial years 1999 and 2004. Residential mortgage debt as a percentage of GDP was a mere 0.58 per cent in 1994 which has moved up to 2.21 per cent in the financial year 2004--still miniscule when compared to about 45 per cent in the European Union, 70 per cent in the US, 38 per cent in Taiwan, 26 per cent in Malaysia, 18 per cent in Thailand, 14 per cent in South Korea, 6 per cent in China, and upwards of 30 per cent in East Asian economies (Business World, 22 March 2004).

This aspect shows further growth of housing finance in future. As per reports of the Investment Information & Credit Rating Agency of India (ICRA 2003), in the last five years housing finance industry has shown unprecedented growth as compared to their other counterparts. In the year 1999-2000 housing finance growth rates was registered at 44.4 per cent, which has reached 77.6 per cent in the year 2003-04. The main factors driving this growth are: (1) fiscal concessions, (2) encouraging regulations to extend by regulating agencies, (3) declining interest rates in different years coming down to 7.65 per cent from 17.00 per cent, (4) increase in products offerings, (5) rapid construction, increasing supply, and stable/declining property prices, (6) steady increase in urbanization levels, (7) increase in disposable income for large sections of the population (ICRA 2003), (8) aggressive lending by banks to the housing sector due to lower credit off takes by the corporate sector, attractive spread and lower non-performing assets, lower risk weightage, and higher risk adjusted profitability (Bombay Stock Exchange 2005).

COMPETITIVE DYNAMICS IN HOUSING FINANCE

Back in the 1990s, getting a good house was easy, but finding finance was tough (Outlook Money, October 2003). Today, the reverse is true. There seems to be a housing finance boom in the country because of the increasing number of players in the field. Presently there are four types of major players in the field of housing finance which are competing with each other namely: housing finance companies (HFCs), banks, cooperative housing finance societies, refinancing institutions like the National Housing Bank (NHB) and National Bank for Agriculture and Rural Development (NABARD). Presently there are 343 housing finance companies (HFCs) working in the business of housing finance. Almost all the banks in India including the State Bank of India (SBI) and its associates, nationalized banks, Indian private banks, and foreign banks have entered the field of housing finance and by the end of March 2005, the retail portfolio of banks showed 50.43 per cent share in the housing finance (NHB 2005). At present there are 92,000 housing cooperatives at the base level with a membership of about sixty-five lakh all over the country represented by twenty-six apex cooperative housing federations at the state/Union territory level (NHB 2005). The performance of HFCs in recent years has been overshadowed by the competing banking sector with aggressive lending abilities, the relatively high cost of funds, higher regulatory capital requirement, and lower degree of penetration in terms of geographical presence and market segments of the HFCs (NHB 2004). A large network and access to low-cost retail deposits have helped them to offer home loan products at competitive rates giving stiff competition to the housing finance business by the HFCs.

REVIEW OF LITERATURE

All this shows that there seems to be a high intensity of competition among different players of the housing finance industry. But this competition needs to be measured to observe its intensity and understand the competitive dynamics of housing finance to make it more consumer-friendly and favourable to industry as well. As in other industries, the degree of competition in the housing finance sector can matter for the efficiency of the production of housing finance services, the quality of housing financial products and the degree of innovation in the sector (Claessens and Laeven 2003).

Several techniques are generally used to measure the competitive dynamics of the firms in the industry. Techniques which are widely used by researchers to measure competition in the banking and financial services sector include: Breshanan and Lau (Prasad and Ghosh 2005), Panzar and Rosse (Casu 2004), the m-bank concentration ratio adopted by Sarkar and Bhaumik, and the HH Index adopted by Juan-Ramon and others (Claessens and Laeven 2003).

However, a few studies concerning the competition in housing finance industry are available and these just point out certain indications of competition in housing finance stakeholders. In Indian context, there is no detailed study specifically dealing with the competition factor in housing finance as such, though studies concerning the competition in banking sector are available. Fahrer and Roling (1992) studied the competition in housing finance market in Australia. They used HH Index of concentration in the market and estimated a model of conjectural variations to examine the reactions of each bank to changes in the value of loans made by other banks. According to Renu Karnad (2004b) housing finance system in India is facing intense competition and its buyer-oriented market and HFCs are following aggressive pricing strategies. Biyani and Krishnan (2004) talk about whether housing finance institutions are ethically and morally correct in promoting risky products without providing the consumers with adequate information. Their study reveals that banks and HFCs are luring customers by cutting down their interest rates and aggressively selling their products with floating interest rates.

Different studies have used HH Index to measure the concentration in the financial services industry. Sayuri Shirai (2001) has used the HH Index adopted by Juan-Ramon and others to assess the extent of concentration in the banking sector. Ingo Walter (2002) and Keswani and Stolin (2006) undertook cross-sector analyse for the performance, persistence, and competition in mutual funds.

OBJECTIVES, DATA, AND METHODOLOGY

The present paper is an attempt

1. To measure the level of competition in Indian housing finance industry.
2. To measure the level of competition amongst housing finance companies.

DATA AND METHODOLOGY

For the purpose of this study, data from the 2006-07 to 2014-15 have been used to measure the competition level among major players. Inter-competition and concentration level in ten top HFCs have also been measured. The companies for analysis have been selected from the list of companies approved by the National Housing Bank under Section 29A of the NHB Act and have been given permission to accept public deposits and also been listed with recognized stock exchange. Companies with a national character working for over ten years have only been selected. For the purpose of measuring the concentration level in the housing finance companies themselves, top ten housing finance companies as per their market share and largest number of branch network in India have been selected to measure the concentration level.
The most important way of observing competition among the different players is to observe the degree of sellers' concentration in the market which plays a dominant role in determining the behaviour of a firm in the market (Barthawal 1996). If the market is concentrated in the hands of few firms or players it reflects a low level of competition and sometimes a state of monopoly. On the contrary, if the market is divided amongst different players equally or in small fractions, it leads to high level of competition. We have used HH Index as a measure of the size of group of players in relationship to the industry and an indicator of the amount of competition. It is an economic concept but widely applied in competition law and antitrust (Brown and Warren-Boulton 1988). When assessing market concentration, guidance can be found in the HH Index, which sums up the squares of the individual market shares of all competitors. With an HH Index below 1000, the market concentration can be characterized as low, between 1000 and 1800 as moderate, and above 1800 as high. The HH Index is a far more precise tool for measuring concentration. It is obtained by squaring the market share of each of the players, and then adding up those squares. The formula for this index is: H = (%S1)2 + (%S2)2 + (%S3)2 +.... (%Sn)2. Here %S stands for the percentages of the market owned by each of the larger companies, so that %S1 is the percentage owned by the largest company, %S2 by the second, and so on. Here n stands for the total number of firms we are counting. The HH Index gives added weight to the biggest companies. The higher the index, the more is the concentration and (within limits) the less is the open market competition. A monopoly, for example, would have an HH Index of S12 or 1002, or 10,000. By definition, that is the maximum score. By contrast, an industry with 100 competitors each having 1 per cent of the market would have a score of 12 + 12 + 12+ ... 12 or a total of 100. Now that we have seen the limits, a more typical situation might be a duopoly. If each of the two firms has a market shares of 50 per cent, the

HH Index would be (50)2 + 502 =2500 + 2500 = 5000. With two firms that have of 75 per cent and 25 per cent share respectively, the HH Index would be: (75)2+ (25)2 = 5,625 + 625 = 6,250.
The HH Index takes into account the relative size and distribution of the firms in a market. The HH Index is the prevalent economic index which measures the centralization of any organizational system using two parameters: inequality among firms and the number of firms in the industry.
The HH Index increases as the number of firms in the market decreases and also as the disparity in size between those firms increases. Decreases in the HH Index generally indicate a loss of pricing power and an increase in competition, whereas increases imply the opposite. We are applying HH Index in our study in two ways: firstly, to calculate the concentration level amongst the players on the basis of their market share in total disbursements of housing finance and secondly, to calculate HH Index among ten leading housing finance companies on market share and asset values separately. The main virtue of the index is its simplicity. But it has two unfortunate shortcomings. It relies on defining correctly the industry or market for which the degree of competitiveness is open to question. This is rarely simple and can be a matter of fierce debate. Even when the scope of the market is clear, the relation between the index and market power is not. When there is a contestable market, even a firm with a HH Index of 10,000 (the classic definition of a monopoly) may behave as if it was in a perfectly competitive market.

For the purpose of measuring the competition in housing finance segment, market share of different players in the total housing loan disbursements or total assets can be taken as base to compute the index. In our study we have used both the bases to compute concentration level in Housing finance companies to measure the stage of competitiveness. In case of major players of housing finance like banks, HFCs, and Apex Co-operative Housing Federations (ACHFs), only the share of housing loan disbursements has been taken as base because banks may be using their assets for purposes other than housing finance business.

India has a literacy rate of 73 per cent with some States such as Bihar, Uttar Pradesh, Jharkhand, Madhya Pradesh and Rajasthan where the literacy rate ranges between 62 per cent and 70 per cent. The banks have devised ways to address limitations arising out of illiteracy by ensuring biometric access to bank accounts. However, Aadhaar seeding implies that some numericals have still to be punched in the machine to operate an account. As all the numerals are in English, only the banker or the business correspondent (BC) can punch in the Aadhaar number. Similarly, the messages that are received on mobile phones from banks are also in English and therefore the illiterate person has to seek someone’s assistance to understand and interpret the message.

In each of the above cases, the privacy of an individual’s bank balance is breached. This makes the illiterates, and population confined at home – females and elderly – vulnerable to malpractices. There are also anecdotes that enterprising BCs, to ensure ease of business, give the same Personal Identification Number (PIN) to all the residents in a single village. This can further compromise privacy and cause embarrassment to the authorities when direct benefit transfers through bank accounts are implemented on a larger scale. Therefore, a financial inclusion strategy sensitive to regional, demographic and gender related factors, needs to be carefully crafted.

Further, it needs to be considered that why despite extensive efforts from authorities, the Prime Minister’s Jan Dhan Accounts (PMJDA) have underperformed. This could be, in addition to poverty and illiteracy, due to the type of products being offered to the unbanked population. Illustratively, recurring deposits are products which are more suitable to the salaried income group rather than people in informal sector whose incomes are uncertain, seasonal and unplanned.

MAKING ACCOUNTS OPERATIONAL

In the opening of PMJDA, mainly public sector banks (PSBs) rose to the occasion in ensuring that every unbanked household had a bank account. Now that 25 crore PMJDAs have been opened in the last two years, a feat unparalleled in history of financial inclusion, it needs to be considered whether is it also the responsibility of the PSBs to ensure that these are operational.

The opening of PMJDA was a mammoth task, as in March 2014 just before PMJDA, total accounts on books of commercial banks were around 1 lakh crore. As can be imagined, given the limited resources in banking sector, opening of such large number of PMJDA within 24 months in far flung areas diverted the attention of bankers from their principal activity of mobilising resources and lending to reliable borrowers, The next challenge is monitoring existing borrower accounts. Therefore, to ensure that the banking industry is robust and existing banking assets safe, given that heavy lifting has been done by PSBs, should the newly opened PMJDA in rural areas and some in urban too, in a sequentially planned manner be moved to rural and urban cooperatives?

Further, at present, there are a number of regulatory authorities that have a role to play in financial inclusion – Reserve Bank, National Bank for Agriculture and Rural Development (NABARD), Securities and Exchange Board of India, Small Industries and Development Bank of India, and MUDRA bank. There is a need to fix responsibility on a single regulatory authority to ensure that JDAs are operational. In this context, given that NABARD has an extensive presence across the country and was formed for the purpose of development of agriculture and rural areas, it should be made the nodal and accountable agency for financial inclusion. NABARD may not have the existing capacity, as of now, to accept the challenge but can certainly be prepared in a phased manner in next few years. It has been investing in modernising, and infusing technology in cooperative institutions.

There is also need for further research on why the moneylender despite persistent efforts by institutions in formal sector has continued to flourish in the financial market. Money lenders continue to account for nearly 30 per cent of total banking business. This then gives rise to an interesting related question: do interest rates matter. After all, it is a fact that Chanakya’s interest rate structure was risk weighted and banking business flourished even then – traders were generally charged 60 per cent per annum, if goods passed through forest then 120 per cent, and sea-borne cargo at 240 per cent.

ANALYSIS AND RESULTS

The different players of housing finance, competition among the housing finance companies is on the reverse trend because the index is showing an increasing trend during the last five years. This shows that three major players HDFC, HUDCO, and LICHF are enjoying the major share of housing finance business. This is because of their national character. Other housing finance companies are either working regionally or their reach is limited. The value of HH Index also shows the high level of concentration, and also that HDFC is representing as the major player in the formal system of housing finance among housing finance companies.

If we give a cursory look at the number of housing finance companies in India during the last seven years, it can be concluded that the number of companies has not increased so far and many of the companies which were originally established for housing finance business vanished because of the change in the scenario of housing finance in India, like stiff regulations and entry of banks and other players in the market. The entry of banking institutions has compelled the housing finance companies to reinvent their areas of core competence. The phenomenon has brought significant qualitative change in the fabric of housing finance system in India. As a result of aggressive competition from banks and gradual softening of rate of interest, the HFCs are compelled to operate within a comparatively thinner spread. Stiff competition in housing finance market has made the functioning of many of the small player unviable. Specialized housing finance companies promoted by commercial banks like those of the State Bank of India (SBI Housing Finance Ltd), Andhra Bank Andhra Bank Housing Ltd), Vijya Bank (Vijya Bank Housing Ltd), and Indian Bank (Indbank Housing Finance Ltd) were liquidated and their assets were taken over by the respective parent banks. Similarly, Vysya Bank housing finance Ltd has been acquired by a bigger HFC, viz., Dewan Housing Finance Corporate Limited. These consolidations in housing finance market point to the fact that functioning of small HFCs is very much under pressure. Many small private HFCs without strong parent backing are gradually losing their market share in the medium to long term. HFCs have higher cost of funds as compared with banks as they depend on priority sector, sub-PLR loans from banks, fixed deposits, NHB refinance, and in some cases low-cost loans from multilateral agencies. Most private HFCs (excluding HDFC) do not enjoy the highest investment grade ratings by credit rating agencies, which further increases their cost of funds. As a result, HFCs, in general, either have lower spread as compared with banks or are not able to match rates with banks. In the face of a fierce competition and desperation for survival, these HFCs resort to substandard appraisal norms at the origination of loans (NHB 2003). Thus, in future, there is a serious possibility of degradation in asset quality of the small- and medium-sized HFCs if they are not able to price their home loan products competitively. Barring the housing finance companies, that are approved by the National Housing Bank, others are not showing any sign of progress. The prime withholding factor for the HFCs happens to be 'the cost of funds'. Being institutional borrowers, they are at a disadvantage as compared to banking entities, which have access to low-cost deposits. The minimum capital adequacy ratio for banks is 9 per cent as against 12 per cent for HFCs. The Securitization Act, which brought a welcome relief to banking entities, does not apply to HFCs. Also, over the years, HFCs have witnessed a decline in their average yields (Outlook Arena, 2004). It is expected that if this trend continues, coming years may witness many mergers and consolidations in this segment of financial institutions which would eventually determine the future of HFCs.

Widely connected branch network and feasibility of the banks to tap rural segment of the population has made it possible for the banks to concentrate on housing finance segment and most of the banks are now concentrating on this sector. If we look at the retail portfolio of the banks by March 2006, it is evident that banks have 47.67 per cent of the total retail portfolio in housing finance in the consumer loans segment.
The reason for banks' interest in the housing finance segment is the lower level of NPA of 1.4 per cent as against 4 per cent in Consumer durable loan segment. A large network and access to low-cost retail deposits have helped them to offer home loan products at competitive rates giving stiff competition to the housing finance business by the HFCs (NHB 2005). Another aspect of this growing concentration is the reversal in the trend of interest rate hike. Because of the power of a few players on the market share, banks and leading HFCs are not hesitating to raise the interest rates. Till 2006, interest rates were on the falling trend but now it is on increasing trend. Every major bank and big housing finance company has started increasing the interest rates after every quarter to six months from 25-point basis to 50-point basis. Partly it is because of the alarming RBI guidelines and partly because of market forces. Floating rates have been continuously rising and have increased by three to four percentage points over the past eighteen months to 11.5-12 per cent.

CONCLUSION

The results of the study show that the main business of housing finance in India is concentrated around a few players like banks and major housing finance companies. The HH Index as an indicator of market concentration shows increasing trend both on the basis of market share of individual players in disbursement of loans as well as on assets base. It shows decreasing competitive ability of small players. Small housing finance companies are losing the battle to the bigger players. Small players in the sector are facing threat from the banks to capture their share because of their wider network and reach. Growing concentration of major share of housing loans disbursements in the hands of larger banks and giant housing finance companies has forced the small housing finance institutions to identify the challenging areas in this field to capture the future market and ensure their remarkable place. Another aspect regarding the competitive dynamics in housing finance is that the indicators showing HFCs and other players as luring customers to get housing finance are not mainly because of the stiff competition but because of the need to change the attitude of the Indian people towards the phenomenon of loan and to bring them into the formal system of housing finance. In India, even today 60 per cent of the households approach informal sources or financiers to borrow funds, which mean an untapped market for housing finance (Analysts 2001). Housing finance institutions particularly housing finance companies (HFCs) have to spread out geographically while ensuring consistency in the processing and service standards to compete with the banking sector. The performance of these institutions has been influenced by more than just customer demand. Stricter NPA norms, rising interest rates, and stiff competition in mobilizing low-cost deposits have all affected the supply-side factors, which in turn has influenced the performance of these institutions in terms of volume and competitiveness (NHB 2005).

Healthy competitiveness in the field of housing finance is a must for the customer's benefits. Here the government, the National Housing Bank, and other regulatory and financing agencies must come to the rescue of small housing finance agencies to build their base by providing adequate refinance to cover their supply side. Here the role of National Housing Bank is very important. Presently, the refinance pattern of National Housing Bank is in favour of banks. In 2014-15, NHB provided Rs2060.95 crores to the HFCs as compared to Rs1845.86 crores in 2003-4; but refinance to the banks was Rs5404.09 crores in 2004-05 as compared to Rs1275.50 crores in 2003-4. NHB has to increase the amount of refinance to housing finance companies to make them competent to compete with banks.

Similarly, it must be ensured that fruits of competition are passed on to the customers. Housing finance institutions have to offer more sophisticated and tailor-made housing finance products to suit customer needs. Differentiated and diversified housing finance products will become an important factor to make a housing finance institution a market leader. The future prospects of this newly recognized industry are undoubtedly bright. Going by the rate of growth of Indian population and its housing needs, the formal sector of financing is bound to witness huge loan disbursements that were not witnessed in the past.

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