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Housing Loan of Non-Banking Financial Institutions in Ramanathapuram District

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Abstract

Houses do a great deal more than housing the people; they channelize human relationships, establish hierarchical or egalitarian forms of behavior permit or constrain freedom of choice, perpetuate the past or prefigure the future. The primary data were collected from the housing loan borrowers of the selected non-banking financial institutions which provide housing finance through the interview schedule method. The housing loan performance of the financial institution differs by different variables. Applying these 15 variables, they are classified for the purpose of the study [1]. The Discriminant Function Analysis (DFA) attempts to construct a function with these variables so that the respondents belonging to these two groups are differentiated to the maximum. In constructing the discriminent function all the variables which contribute more to differentiate these groups are examined. Thus the financial institution only lends according to its evaluation of the property [2]. This can cause a significant gap between what is needed and what the financial institution is willing to lend.

Keywords: Housing Loan; Satisfaction; Discriminant; Individual and Borrowers.

Introduction

Housing has a vital bearing on the health of the nation and the standard of living of the community in general. A house, which provides shelter and protection, plays an important role in shaping one's destiny [3]. Houses do a great deal more than housing the people; they channelise human relationships, establish hierarchical or egalitarian forms of behavior permit or constrain freedom of choice, perpetuate the past or prefigure the future [4]. Thus beyond the "length and width" and measurement of structure of scores of lifeless materials like wood and bricks a house has a distinct human aspect which inspires man's behavior and life styles.

Statement of Problem

The post Second World War era has seen significant increase in the life expectancy and literacy rates in most parts of the world. This is particularly evident in the developing countries when contrasted with the earlier era of almost stagnant growth. The rapid economic development during the latter half of this century accompanied by political changes that led to a large number of countries gaining independence from their rest while colonial masters has led to a tendency for greater involvement of the state in the welfare of its citizens [5]. In India, which gained independence in 1947, the government has not only directly invested in certain priority sectors, but has also used fiscal policies to try to attract private investment into these areas. Thus fiscal policy aims not only to raise revenue, but, for example, by giving tax breaks, to encourage investment in specific industrial sectors [6].

Objectives of the Study

The following are the objectives of the study.

To discuss the role of the non-banking financial institutions in housing finance.

To analyse the performance of the selected non-banking financial institutions in the process of the sanction and disbursement of housing loans.

To highlight the opinion of the sample respondents regarding housing finance and the services of the housing finance institutions.

Methodology

The present study is an empirical one based on the survey method. Though the study is empirical in nature, it is supported by secondary data. The secondary data were collected from the annual reports of National Housing Bank, HUDCO and various housing finance companies and from the related books, journals, magazines, newspapers and websites.

The primary data were collected from the housing loan borrowers of the selected non-banking financial institutions which provide housing finance through the interview schedule method. The schedule was used to mobilize the opinion of the sample borrowers regarding the factors that prompted them to choose a particular institution for their housing loan needs and the factors that have determined them to avail such loan [7]. On the basis of literature, hypotheses have been formulated to bring out the statistical results to substantiate the opinion of the sample borrowers. In this context of the hypotheses thus constructed, they have been tested. Thus, the study has been constructed with the help of both primary and secondary data.

Coverage of Period

The primary data were collected through interview schedules from March to June 2018.

Limitations of the Study

It has been confined to individual borrowers, keeping aside the other types of borrowers such as partnership firms, corporate bodies and the like. As the study has been projected from the point of view of individual borrowers, the opinion of the agents has not been discussed. They have been consulted to widen the research scope for the purpose of construction of the interview schedule. Their observations on the product features have been suitably dealt with.

Discriminant Function Analysis

The housing loan performance of the financial institution differs by different variables. In the study area, there are 750 respondents with different perception regarding the performance of the financial institutions. On the basis of their perception level, they are divided into respondents with high satisfaction and respondents with low satisfaction. In order to differentiate the respondents with high level of satisfaction from tune with the low level of satisfaction, the Discriminate Functional Analysis has been applied. For the purpose of the study, 15 variables have been identified. Applying these 15 variables, they are classified for the purpose of the study.

Age, Gender, Educational Qualification, Marital Status, Number of Family members, Nature of Employment, Monthly income of family, Built area of property, Purpose of loan, Type of interest rate, Loan Repayment period, Insurance Coverage, Additional loan, Income tax assessee and Awareness of income tax benefits.

The Discriminant Function Analysis (DFA) attempts to construct a function with these variables so that the respondents belonging to these two groups are differentiated to the maximum. The linear combination of the variables is known as the discriminant function coefficient. In constructing the discriminent function all the variables which contribute more to differentiate these groups are examined.

The Mahalanbis Minimum D2 Method is based on the generalized Squared Euclidean distance that adjusts for un equal variable in the variables. The major advantage of this procedure is that it is computed in the original space of the predictor (independent) variables rather than as a collapsed version which is used in the other methods.

Generally, all the variables selected will not contribute to explain the maximum discriminatory power of the function. So a selection rule is applied based on certain criteria to include those variables which best discriminate. The Stepwise Selection Method was applied in constructing the discriminant functions as to which are the variables to be included in the function. Before emerging into the functions, the variables are examined for inclusion in the function.

The variables which could have the maximum D2 value, if entered in to the function, are selected for inclusion in the function. One entered any variable already in the equation is again considered for removal based on certain removal criteria. Likewise, at each step the next best discriminating variable is selected and included in the function and any variable already included in the function is considered for removal based on the selection and removal criteria respectively.

Since the discriminant function analysis involves the classification of the problem and also ascertains the efficiency of the DFA, all the variables which satisfy the entry and removal criteria were entered into the function. Normally the criteria used to select the variable for inclusion in the function is minimum F. To enter into the equation (i.e), F statistic calculated for the qualified variable to enter in to the function is fixed as>1.

Similarly, any variable entered will be removed from the function if F statistic for the variable calculated is <1. The two groups are defined as

Group 1 overall respondents with High level of satisfaction

Group 2 overall respondents Low level satisfaction

Then mean and standard deviation for these groups and for the entire samples are given for each variable considered in the analysis. Table 1 shows the mean and standard deviation for the respondents with a high level of satisfaction and for the respondents with low level of satisfaction.

Sl. No.	Variables	High Level of Satisfaction		Low Level of Satisfaction	
		Mean	Standard Deviation	Mean	Standard Deviation
1	Age	4.0703	0.658	3.9914	0.4859
2	Gender	1.2162	0.4135	1.2857	0.4539
3	Educational Qualification	3.2703	1.0086	3.3143	1.1955
4	Marital status	1.8108	0.3934	1.8	0.4019
5	Family members	4.1351	1.0995	4.0571	1.1505
6	Nature of Employment	2.0541	1.0431	2.1143	1.0126
7	Monthly Income of Family	2.7838	0.8136	2.7429	1.1096
8	Built in Area	1.245	0.3891	1.2211	0.4173
9	Purpose of Loan	2.5405	0.5524	2.4	0.5981
10	Type of rate of interest	1.4595	0.5006	1.4857	0.5022
11	Loan Repayment Period	13.4865	4.0829	15.8	4.2752
12	Insurance Coverage	1.6486	0.4796	1.7143	0.4539

13	Additional loan	1.7297	0.4461	1.7714	0.4219
14	Income tax Status	1.1081	0.3119	1.1143	0.3197
15	Aware of Income tax benefits	1.1081	0.3119	1.1714	0.3787

Table 1: Discriminant analysis group mean and standard deviation between overall highly satisfied and overall low satisfied respondents.

The overall stepwise DFA results after all significant discriminators have been included in the estimation of the discriminated function. They are given in Table 2.

Sl.No.	Variable entered	Wilk's lambda	Sig	Minimum D2	Significance
1	Gender	0.98617	0.0055	0.022	1%
2	Repayment period	0.96411	0	0.12974	1%
3	Purpose of loan	0.93899	0	0.25932	1%
4	Family Income	0.90698	0	0.35137	1%
5	Awareness on Income tax benefit	0.89724	0	0.3823	1%

Table 2: Summary table between overall low and highly satisfied respondents.

The summary table 2 indicates that the variable 'Gender' enters in step I and the variable repayment period enters in step II. The variables, purpose of loan, Family income and Awareness of Income tax benefits, are significant at the 1% level.

All the variables are significant based on their Wilks Lambda and D2 value. The multivariate aspect of the model is given in Table 3.

Canonical Correlation	Wilk's Lambda	Chi-square	DF	Sig
0.281	0.897	80.785	10	0
0.161	1.974	19.677	4	0

Table 3: Canonical discriminant function between overall low satisfied and high satisfied respondents.

The canonical correlation is 0.281 when squared 0.079

The canonical correlation is 0.161 when squared 0.026

The variables given above are identified finally by the DFA as the eligible discriminating variables. Based on the selected variables the corresponding DF Coefficients are calculated. They are given in Table 4.

Variables	Group - I	Group – II
Gender	0.869	0.794
Monthly income	0.825	0.202
Purpose of Loan	1.026	0.289
Repayment period	0.152	0.191
Aware of Income tax	0.79	0.921
Constant	0.365	3.587

Table 4: Discriminant function coefficients between overall low satisfied and high satisfied borrowers.

Z = 0.365 and 3.587

0.869 and 0.793 (Gender)

0.825 and -0.202 (Monthly income)

- 1.026 and -0.289 (Purpose of loan)

-0.152 and 0.191 (Repayment period)

0.790 and 0.921 (Aware of Income tax)

Using this Discriminant Function coefficient and the variables discriminating scores for this 3 groups are found and they are called group centroids or group means

Table 5 gives the result of the reclassification. The function is the analysis classified 70.80% of the cases correctly in the respective groups.

Actual Group	No of case	Group I	Group II	Group III
Low	105	0 (0%)	99 (94.3%)	6 (5.7%)
Medium	534	0 (0%)	525 (98.3%)	9 (1.7%)
High	111	0 (0%)	111 (100%)	0 (0%)
Percent of grouped cases correctly classified				70.80%

Table 5: Classification of results between low satisfied, medium satisfied and highly satisfied borrowers.

The Discriminant function analysis was applied to the respondents based on the low, medium and highly satisfied borrowers. The following factor significantly discriminate the three satisfied groups. They are

Gender (at 1% level)

Monthly income (at 1% level)

Purpose of loan (at 1% level)

Repayment period (at 1% level)

Aware of Income tax (at 1% level)

Suggestions

The financial institution has its own experts for legal, technical and financial appraisal of the property in question. It evaluates the property on its own established parameters and assigns a value to it. This value can be significantly lower than the price the borrower quotes for the property. Thus the financial institution only lends according to its evaluation of the property. This can cause a significant gap between what is needed and what the financial institution is willing to lend. To avoid this situation the borrower can get the property valued before applying for home loan from a financial institution.

Conclusion

It is felt that the present study has contributed much to the field of housing finance. It has been undertaken to document the experience of the borrowers. Since the study has given a complete picture of the role of non-banking financial institutions the guiding policies can be formulated in providing the housing loan. In addition to this, it will enable the Government to understand the importance of Housing Finance Institutions in society. The study is descriptive in the sense that it has been mainly based on the opinion of all the sample respondents of the borrowers in Ramanathapuram District. The suggestions made will enable the National Housing Bank to formulate the necessary rules and regulation and common policies for the functioning of all the public or private Housing Finance Institutions.

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