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PREFACE

The Indian financial system has undergone revolutionary changes in the recent past. The increasing complexity of financing business has drawn many managers into a web of financial services jargon. Since the early seventies, there has been an explosive growth of financial innovations in India. New methods of financing such as Merchant Banking, Leasing, Venture Capital, Factoring, Mutual funds, etc., have emerged as alternative sources of finance. New financial instruments such as Commercial Paper, Zero Interest Bonds, Deep Discount Bonds, Secured Premium Notes, etc., have also gained prominence in the financial market.

The financial services industry assumes strategic perspective in the increasingly turbulent and uncertain business environment in the era of liberalisation.

Considerable deregulation of financial markets has taken place in India favouring unbridled growth of financial services companies. Reforms undertaken have increased competitiveness within the financial sector by means of freeing interest rates, allowing new financial institutions and instruments and lifting controls on the entry of new domestic and foreign banks. As a consequence, the scope and activities of banks and non-banking finance companies have expanded rapidly due to liberalisation drive, more particularly since 1991. The non-banking finance companies have been competing and complementing the services of commercial banks. It has been observed that the growth of non-banking finance companies is more pronounced than banking companies.

Though the financial services industry faced teething troubles the increasing and diverse needs of growing corporate industry encouraged and sustained the steady growth of financial services market. The development of financial services market has also led to globalisation of financial services. The changes that have come about because of deregulation and opening up of Indian economy to the world coupled with Information Technology resulted in severe competition in the financial

HOUSING FINANCE IN INDIA - ROLE OF LIC HOUSING FINANCE LIMITED

M. Selvam and V. Backiyavathy

Introduction

It is estimated that 900 million people are living in India and in the last four years, there has been vast economic changes in the country. However, the country's housing problems are still in a critical situation. At present, over 31 million people are without dwelling units in India and this figure is expected to go up to about 41 million by the turn of this century. To cope with the changing inadequacies in the future, the union Government has incorporated in the 8th Five Year plan an allocation of Rs. 49,230 million for the housing sector, considering the heavy requirements and priority.

It is true that the financial assistance and plan for higher allocation of funds by union Government will not fully solve the housing crisis in the country. Therefore, the participation of private and corporate sectors in the housing finance, are and will be inevitable. In order to organize, control and regulate the housing finance, National Housing Bank (NHB), an apex body was established in the country. All the financial institutions which are following and fulfilling the various norms prescribed by the NHB are called organized sector or public finance whereas others are called unorganised sector or private finance. The NHB provides loan to all institutions which extend financial assistance for housing.

Participation of Private and Public Finance in Housing

In India, the participation of private and public sectors have been in practice in the housing finance even before the inception of the

first five year plan. Table I explains the details of public and private investment in housing in India. It is clear that the share of the public sector in housing has been very low in all the plan periods, but the private sector played a significant role in the housing finance.

Table I: Investment in Housing by Public and Private Sector in India

Plan Period	Investment in Housing				(Rs. Crore)	
	Public	%	Private	%	Total	%
First Plan	250	22	900	78	1150	100
Second Plan	300	23	1000	77	1300	100
Third Plan	425	27	1125	73	1550	100
Fourth Plan	625	22	2175	78	2800	100
Fifth Plan	1044	22	3636	78	4680	100
Sixth Plan	1491	11	11500	89	12991	100
Seventh Plan	2858	9	29000	91	31858	100

Source: Computed from *The Economic Times*, March 11, 1993, p-12

In the absence of an extensive network of specialised housing financial institutions, various (other) institutions have been providing financial assistance for housing. However, they were unable to fulfil the requirements.

Table II reveals the details of house holders, usable housing stock and housing shortages in 1991 and 2001. It is obvious that the housing shortage of 31 million in the year 1991 will be increased to 41 million which will be about 25 percent higher in the year 2001.

Share of various financial institutions (Public Sector) in Housing Finance

At present there are 18 housing finance companies, recognised by the National Housing Bank. The two companies, which dominate the market are LICHL and Housing Development Finance Corporation (HDFC). Together they account for 82 percent of the market. The other 16 companies put together have a market share of 18 percent. It is clear that more amount sanctioned to housing is by HDFC and LICHL.

Table II: Details of Householders, Usable Housing Stock and Housing Shortages in 1991 & 2001

Particulars	1991			2001		
	Rural	Urban	Total	Rural	Urban	Total
Householders	113.5	47.1	160.6	137.0	72.2	209.2
Usable housing stock	92.9	36.7	129.6	111.5	56.7	168.2
Housing Shortage	20.6	10.4	31.0	25.5	15.5	41.0

Source: *The Economic Times*, 3.10.93, p-10

Role of LIC in Housing Finance

LIC of India is a statutory Corporation formed under the LIC of India Act 1956. Prior to 1956, large numbers of small and large insurance companies were operating in the private sector. The Government of India nationalised the business of life insurance in 1956, the newly formed LIC of India took over the assets and liabilities of all the existing insurance companies. LIC of India has been the sole provider of life insurance in India after 1956. LIC's life insurance business expanded rapidly since 1956 onwards.

LIC-Promoters

In order to fulfil the wishes of the promoters of the company, LIC of India, a pioneer in the field of housing finance, had started the property mortgage scheme in 1956 itself. Since its inception, the LIC has been providing financial assistance for housing to individuals, co-operative housing societies and private undertakings through its various mortgages housing schemes.

As sanctioning of loan or extending financial assistance for housing was not the main business of LIC, due importance was not given to it. However, a separate department under the control of the Managing Director, LIC, was created to look after the housing finance. Individuals, particularly the employees of LIC, public sector undertakings etc., were the major beneficiaries of the then housing department of LIC. No separate annual report on housing finance was prepared and presented. Income, expenditure loan sanctioned etc., were included in the LIC's Balance Sheet and Revenue and Expenses account. The contribution made by LIC towards housing development is given in Table - III.

Table III: LIC Contribution towards Housing Development (before Incorporation of LICHFL)

Year	No. % of Loans Sanctioned	Amount Sanctioned (Rs. in.Cr.)	No. % of Loans Disbursed	Amount Disbursed (Rs. in.Cr.)
1986-87	3203	25.80	2569	18.93
1987-88	5796	48.63	3495	28.15
1988-89	20622	107.59	10554	73.51

Source: Computed from the Annual Report from 1985-1987 and other records of LIC

Establishment of LIC Housing Finance Limited

Housing is one of the basic necessities of human being. Housing finance, therefore, occupies an important place in corporations investments. With a view to solve the housing shortage in the country, the corporation joined in a great way in the massive efforts by providing financial assistance to state governments for social housing schemes for economically weaker sections, low income groups, middle income groups, state government employees and rural population. Corporation also has been extending financial assistance to state level apex co-operation housing finance societies; the benefits of which are passed on to individuals through primary Co-operative Societies. Besides, the corporation is providing bulk loans to housing finance institutions like Housing Development Finance Corporation (HDFC), Housing and Urban Development Corporation (HUDC), State Police Housing Corporation (SPHC) etc.,

In the year 1989 (on 19 June 1989) with a view to accelerating individual housing activities further, which fall under national priorities, the corporation decided to promote a new housing finance Company namely "LIC Housing Finance Limited (LICHFL)". The main aim of establishing this company is to take over the individual housing portfolios of the corporation. Accordingly, LICHFL was launched in association with the UTI, IFCI, ICICI with an authorised capital of Rs. 100 crores and a paid up capital of Rs. 25 crores.

Among all the housing finance companies, LICHFL has the widest network of offices thereby offering housing finance extensively. LICHFL at present has 67 area offices and 6 regional offices all over the country to cater to the requirements of individuals as well as that of builders and corporate bodies. The operations of LICHFL are extensively decentralised and 95 percent of the loans to individuals are sanctioned at the area offices. The significant point is that the agents of LIC are also involved in the services of housing finance, so that, people living in the remote area of the country are aware of the loan facilities available with LICHFL.

Operation of LICHFL

The company has established itself as a leading institution in the field of housing finance. The company, at present, offers housing loan schemes for individuals and corporate bodies.

Let us briefly discuss the various schemes meant for individuals.

1. Griha Prakash and Griha Tara

Under this scheme a maximum amount of loan Rs. 20 lakhs is available to the individual. The security for the loan is the mortgage of property and life insurance policy is also accepted as collateral security. Loan will be sanctioned upto a maximum of 80 percent of the property value.

2. Griha Lakshmi

In this scheme also a maximum loan of Rs. 20 lakhs is available. The significance of this scheme is that life insurance is not compulsory.

3. Griha Jyoti

This is another scheme in which a maximum loan of Rs. 10 lakhs is available. Low income groups are mostly benefited by this scheme.

4. Griha Shobha

In this scheme, loan is available only to NRI's to the tune of Rs. 10 lakhs. The NRI should be a policy holder or should become a policy holder before disbursement of loan. Loan will be upto a maximum of 75 percent of the property value to construct or purchase a house or flat in India.

5. Griha Sudhar

It is meant for repairs/renovations to houses/flats. At present this scheme is restricted to those who have already availed loan from

LIC or LICHFL. The maximum loan available under this scheme is Rs. 2 lakhs.

Table IV shows the details of various schemes offered by LICHFL. At present, LICHFL sanctions loan to a person who is in permanent service or engaged in a profession or business. They must have a secure job or regular income; pension income also is considered but under some conditions. In all the schemes, the loan amount is determined on the basis of the repayment capacity of the applicant (s); repayment capacity takes into consideration factors such as age, income, dependents, assets, liabilities, stability, saving habits, etc.

Table IV: Details of Various Schemes for Individuals by LICHFL

Scheme	Maximum loan (Rs. in lakhs)	Purpose of loan	Rate of Interest	Security guarantee required	Repayment period Max.
Griha Prakash	20	Purchase,	12-16.5%	Property	20 years
Griha Tara	20	Construction	12-16.5%	LIC Policy	15 years
Griha Lakshmi	20	& Extension	16-17.5%	LIC Policy	20 years
Griha Jyothi	01	"	12-15.0%	LIC Policy	20 years
Griha Shoba (exclusively for NRI)	10	"	12-16.5%	LIC Policy	15 years

Source: Computed from *Books and Records of LIC, 1993 & 1994.*

Schemes for Corporate Bodies/Groups

Under group schemes, the company sanctions loan to the following categories.

- Co-operative housing societies.
- Public sector undertakings.
- Public limited companies.
- Builders and developers.
- Line of credit - other corporate bodies.

Salient features of schemes of LICHFL

The LICHFL has some salient features which are not available in other institutions providing housing financial assistance, they are briefly summarised below:

To sanction housing loan, LICHL insists on life insurance policies as collateral security in most of its loan schemes for the following reasons:

- i. Being a subsidiary of LIC, its objectives make it mandatory to grant loans particularly to the policy holders of LIC.
- ii. It wants to ensure repayment of the loan in the unfortunate event of death of the borrower, so that, the house/flat could be passed on to the heirs without any liability, and
- iii. It wants to provide a unique repayment method - repayment out of policy proceeds which is not in vogue with other housing finance agencies.

Mode of Repayment

There are three methods - viz., (a) Equated Monthly Instalment (EMI) (b) Policy proceeds and (c) Combination of EMI and policy proceeds.

(a) Equated Monthly Instalments

It means a uniform lumpsum amount, which includes a monthly repayment of a part of the principal amount and payment of interest, calculated on annual balance. The repayment remains uniform throughout the term of the loan.

(b) Policy Proceeds

In this mode, only interest on the loan throughout the term is to be paid and the principal is adjusted out of the LIC policy proceeds on maturity of the policy. This scheme is very popular among policy holders.

(c) Combination of EMI and Policy Proceeds

A portion of the disbursed amount is repaid by policy proceeds while the balance is repaid through EMI.

Tax benefits

It is significant to note that there are tax benefits as noted below.

- a. Exemption under sec 88 of IT Act for repayment of loan upto Rs. 10,000/- per annum and
- b. Exemption under sec 24 of IT Act for interest payment on housing loans upto Rs. 10,000/- per annum.

Operational performance of LICHL

Table V shows the operational performance of LICHL for the years from 1989-90 to 1993-1994. LICHL was established in 1989. In all these years, both the amount sanctioned and the number of beneficiaries have been increasing except in 1993-94. There was a decrease both in the amount sanctioned and disbursed. This decline is due to the policy changes of LICHL that it has stopped sanctioning loan to farmers since agricultural income is not considered as a permanent source of income from the year 1993-94. With the result LICHL does not extend its service to farmers who form the large segment of the population of the country.

LICHL also started sanctioning housing loans/financial assistance for house project and construction from the year 1991-92 and in all the three years right from commencement, there has been a steady progress. What is significant is that the amount of Rs. 14.08 crores sanctioned in 1989-90 has increased to Rs. 454.51 crores including housing project in 1993-94 which is about 32 times more. The overall analysis of the table shows that operational performance of LICHL is progressive and number of persons enjoying the facilities of LICHL also is significant; in future more people will get benefited by it.

Table V : Operational Performance of LICHL for the Years from 1989 to 1993-94

Particulars	1989-90	1990-91	1991-92	1992-93	1993-94
I. Individual Housing Loan					
<i>i. Sanctions</i>					
(a) Application received (in No.)	1484	18241	42240	52129	40818
(b) Loan amount (in Cr.)	14.08	19.13	420.02	525.00	473.97
<i>ii. Disbursements</i>					
(a) Application (in Nos)	1157	11784	26478	45916	39560
(b) Amount (in crores)	10.85	96.38	242.60	430.07	406.41
II. Housing Construction of Project Finance					
(i) Sanctions (in crores)	-	-	91.44	81.57	89.54
(ii) Disbursements	-	-	22.13	45.54	60.62

Source: The Annual Reports 1989-90 and 1993-94 & Other Reports of LICHL.

Operational Performance Projection

Table VI discloses the operational performance (projection) for the future period from 1995 to 1997. It is clear that LICHL plans to achieve the planned target; there is a steady growth in the plan and more scope for widening its services in the housing finance.

Table VI: Operational performance (Projection for the next 3 years (1995-97))

Particulars	31.12.95	31.12.96 (in crores)	31.12.97
Loan Sanctions	580.00	610.00	670.00
Disbursement	525.00	550.00	600.00

Source: Computed from the Annual Records 1994 and Other Records of LICHL.

Financial Performance of LICHL

The financial performance of LICHL for the year from 1989-90 to 1993-94 is given in the Table VII. It is obvious that the financial position of the company is sound in all aspects and this has been increasing every year. It is also significant to note here that the dividend rate, an average of 2.5 percent has been increasing year by year. Similarly, profit after tax also has been increasing. It is no doubt that investors will be attracted to invest in LICHL and ultimately the public at large will be benefited.

Table VII: Financial Performance of LICHL for the Years from 1989-90 to 1993-94

Particulars	1989-90	90-91	91-92	92-93	93-94
Eq.sh. Capital	10.00	25.00	25.00	35.00	55.00
Reserves & Surplus	0.07	2.04	6.27	21.46	56.89
Loan Funds	24.23	144.19	414.81	889.53	1271.83
Dividend (%)	-	7.50	10.00	12.50	15.00
Book Value per share (Rs)	10.07	10.82	12.51	16.13	20.34
Profit before tax	0.08	4.77	9.68	18.77	29.23
Profit after tax	0.07	3.31	6.72	13.47	21.53

Source: Computed from the Annual Reports 1989-90 to 1993-94 & Other Records of LICHL.

Financial Performance of LICHL - Projection

The financial performance for future period from 1994-95 to 1996-97 is presented in Table VIII. This projection is subject to the present interest rate and structure and other regulator aspects continuously to be in force. In general the company's financial position will be sound in all respects. Profit of the company will be increased to 60.43 lakhs which is more or less double in 1996-97 from 35.55 in 1994-95. Therefore, the company's service in housing finance will be more in future. With the result the housing problem of the country, will be solved by LICHL, to a certain extent.

Table VIII: Financial Performance (Projection) of LICHL 3 years

Particulars	1994-95	1995-96	1996-97
Eq.sh. Capital	75.00	75.00	75.00
Reserve	183.01	220.58	267.51
Loan funds	1764.00	2254.00	2756.00
Dividend (%)	15.00	18.00	18.00
Book Value per share	33.60	38.70	45.05
Profit before tax	47.25	69.96	82.78
Profit after tax	35.55	51.07	60.75

Source: Computed from the Annual Reports 1993-94 & Other Records of LICHL.

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Table II : Scheme - wise Assistance Sanctioned by RCTC (Rs. in crore)

Form of Assistance	1989-90	1990-91	1991-92	1992-93	1993-94
(a) Risk Capital Scheme:					
(i) Rupee loan	2.1	0.9	-	-	-
(ii) Direct Subscription	1.3	1.9	3.0	4.3	1.5
(b) Technology Finance Scheme					
(i) Rupee loan	2.2	6.5	1.1	-	-
(ii) Direct Subscription	0.5	0.5	0.3	0.3	0.8
(c) Venture Capital Schemes-III					
Schemes-III	-	1.0	5.5	6.5	5.1
Total	6.1	10.8	9.7	11.1	7.4

Source : Computed from Report on Development Banking in India, IDBI, 1993-1994.

Analysis of RCTC, one of the venture capital companies, clearly shows a sample that Indian venture capitalists as such are unwilling to invest their capital in venture business owing to many reasons and difficulties. Their contributions to venture business are not significant. Therefore, the reasons and other difficulties are to be identified; the Government has to contribute more for the development of venture capital in India keeping in mind the performance and experience of venture capital companies abroad. Venture capital fund has more potential and wider scope in India. So, VCCs are to be encouraged.

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PREFACE

Financial system has undergone revolutionary changes in increasing complexity of financing business has drawn a web of financial services jargon. Since the early 1990s, there has been an explosive growth of financial innovations in the form of financing such as Merchant Banking, Leasing, Factoring, Mutual funds, etc., have emerged as alternative financial instruments such as Commercial Paper, Deep Discount Bonds, Secured Premium Notes, etc., have gained prominence in the financial market.

The services industry assumes strategic perspective in the era of liberalisation and uncertain business environment in the era of globalisation.

Regulation of financial markets has taken place in India to facilitate the growth of financial services companies. Reforms have eased competitiveness within the financial sector by liberalising interest rates, allowing new financial institutions and relaxing controls on the entry of new domestic and foreign companies. The scope and activities of banks and non-banking finance companies have expanded rapidly due to liberalisation since 1991. The non-banking finance companies have emerged as a major force and complementing the services of commercial banks. It is expected that the growth of non-banking finance companies is going to be significant in the coming years.

The financial services industry faced teething troubles the early 1990s. The needs of growing corporate industry encouraged the steady growth of financial services market. The liberalisation of financial services market has also led to globalisation of the industry. The changes that have come about because of the opening up of Indian economy to the world coupled with the liberalisation of financial services resulted in severe competition in the financial market.