

**CHALLENGES & OPPORTUNITIES FOR MORTGAGE INDUSTRY IN INDIA –
A STUDY OF ICICI BANK LTD.**

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Abstract

Mortgages in India and other developing countries are key motivators for the growth of the economy as they are the key initiator in the allied industries of steel, cement, and other materials related with construction besides giving employment to the masses and the classes. International financial markets especially those of the developed countries faced a backlash of financial upturn, the key reason being the subprime loss in the mortgage industry from which these countries are still recuperating which directly affected the markets of the world as well. The sub-prime loss reflected a stronger credit appraisal system in India and the developed countries have taken a cue for ascertaining the process and the credit line method used in the Indian Sub-continent. Developed countries have a complex yet simple process of credit rating of individuals and corporate across the board with the social security database in place which is in synchronization with the financial setup i.e. banks and the lending authorities to ascertain the credit worthiness of the entity seeking a mortgage loan. This gives a standardized process for credit appraisal for the customers as well as a secure lending system for the financial sector. Equifax credit rating report gives an exact credit line for the customer and the customer has the facility to use his credit line as per the ease of swipe of his credit card. Furthermore the land records of the property across the developed countries are in digital form with clear titles and the legal system ensuring timely intervention and support in case of any disputes arising from non- performing assets or other defaults. India needs to go a long way where the protection of the consumers and the financial institutions can be looked upon. This research paper attempts to infer and deduct from the practical interactions of the presenter to propose the innovations and existing practices across ICICI Bank mortgage sector and give suggestions to build a robust mortgage system that can be implemented for a better tomorrow.

Key words: Mortgages, financial markets, subprime loss, equifax credit rating, credit appraisal, legal system, land records and lending system.

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Introduction

EK GHAR BANE NAYARA YEH TERA GHAR YEH MERA GHAR.....

Roti, Kapda aur Makaan! Build a shelter or buying a home is one of the biggest investments you will ever make in your life. Unless, it is buying an even bigger home later! Your home is not just a roof over your head, but is an asset for you and the generations to come.

Innovation has occurred in many aspects and levels in the banking sector. Over the decades we have seen banks innovate constantly in their products, business, process and technology. However, the most radical changes have been seen in the mortgage industry wherein they have been a key motivator of the Indian growth especially in the times of International turmoil of the subprime crisis. Sub-prime crisis forced the industry across the world to look at the parameters of mortgage industry for the loopholes and plug the same with India a country to look upon where the subprime loss did not have a direct impact on the economy of the country. Mortgage financing industry, which is primarily known as the housing finance industry in India is, estimated approximately total worth of US \$ 18 billion.

The word mortgage is a law French term meaning "death contract," meaning that the pledge ends (dies) when either the obligation is fulfilled or the property is taken through foreclosure. A mortgage is a loan to finance the purchase of real estate, in which the borrower gives the lender an ownership interest in the property in case the loan payments are not made. Mortgages cater to the ability to pay consistently over time, which can however, become a problem in times of recession. The mortgage is a debt, but it provides a sense of ownership to the buyer. A home buyer or builder can obtain financing (a loan) either to purchase or secure against the property from a financial institution, such as a bank, either directly or indirectly through intermediaries. Features of mortgage loans such as the size of the loan, maturity of the loan, interest rate, method of paying off the loan, and other characteristics can vary considerably.

Today, the types of mortgage are being accepted as collateral are varied and not confined to residential property only but also a key initiator to the business sector. The mortgage industry of India could break open from its age old image of being housing mortgage facilitator only. The types of mortgage accepted as collateral security for facilitating mortgage loans in India include - amusement parks, fitness centers, restaurants, hotels, motels, hospitals, educational institutions etc.

Until recently, the Indian mortgage market was under the unorganized sector and till date 80. The government's liberal economic policy in the late 1990s facilitated the entry of foreign institutional investors (FIIs) and foreign direct investment (FII) in the Indian market. The Indian markets which were previously closed to such investments registered tremendous economic growth across all industry sectors. Some of the well-known mortgage-financing companies offering various types of mortgage in India are:

- ICICI Home Finance
- LIC Housing Finance
- HDFC and
- SBI Housing Finance, to name a few.

ICICI has a long history of its growth to the private sector of housing and mortgage industry. ICICI Bank had over the years been a key corporate entity for the development of mortgage industry with easy finance availability to the masses which directly propelled the demand of housing projects across the sub-continent. The ICICI Bank mortgage service includes: debt consolidation service, home equity loans, new home loans, real estate lending etc.

The following types of rates are prevalent in the Indian mortgage market:

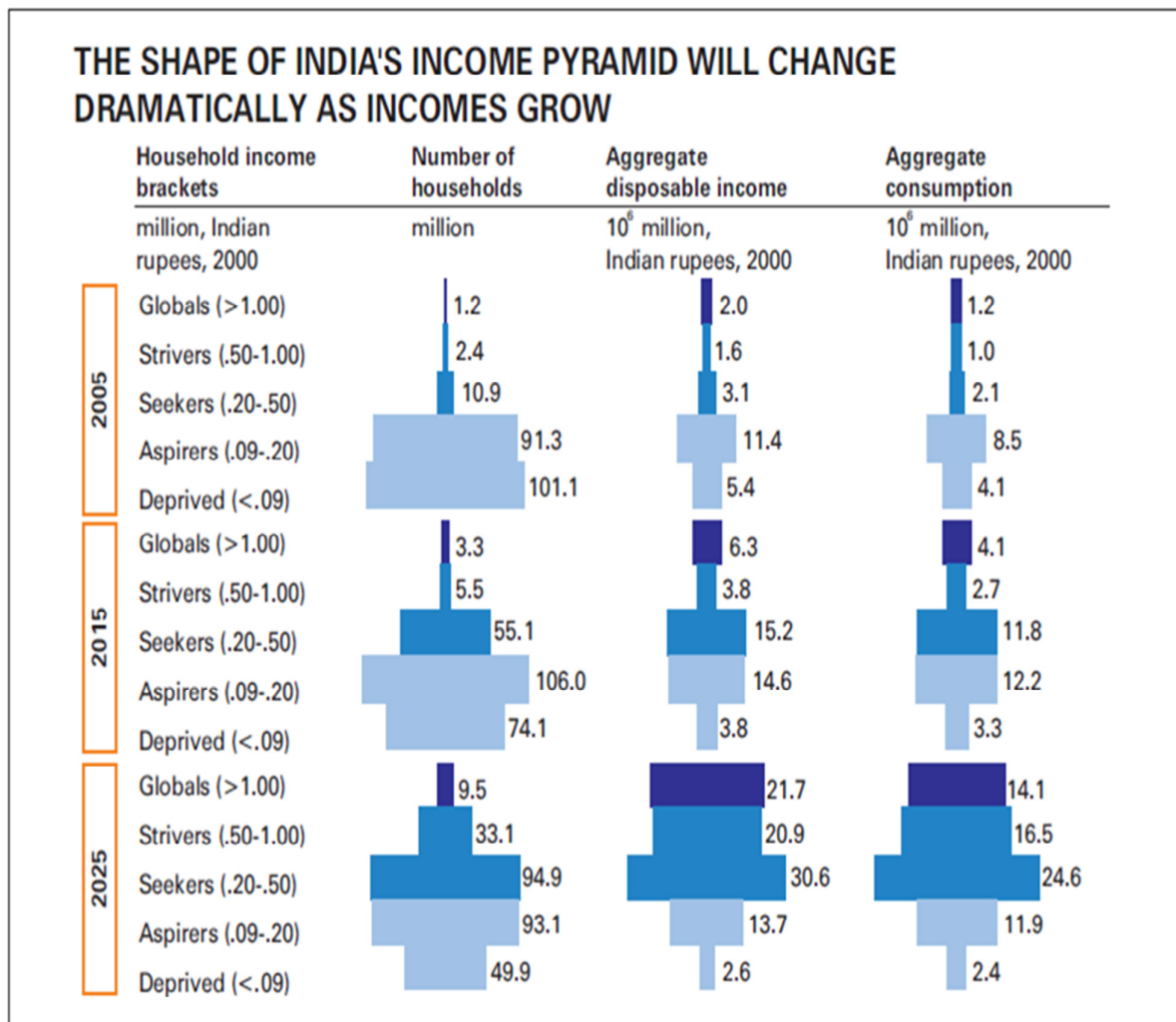
- Fixed Mortgage Rate - in this case the rate of interest remains fixed throughout the loan term. The mortgage rates do not vary according to market conditions. In other words, the rate of interest is pre-fixed during the process of borrowing and it generally varies depending on the lending rates of banks and other factors.
- Flexible Mortgage Rate - is one in which the interest rate varies according to market movements. This type of interest rate is called 'adjusting' or 'floating' rates. The risk factor is high in this type of interest rates.

Banks have been focusing on floating rate advances within mortgages as it lets them minimize the interest rate risk on the portfolio.

Housing in India is a basic human necessity supporting economic activities. It is the second largest employment generator, next to agriculture. In addition, every rupee spent on construction, an estimated 75-80 paisa is added to GDP.

As per a report by McKinsey, the private consumption is estimated to go up significantly by 2025 (Fig.1).

Figure 1



Source: McKinsey Global Institute, India Consumer Demand Model

Literature review

Mortgage industry has undergone a radical change with the availability of easy finance available to all the segments of the society. Historically, the construction industry has converged around MIG (Middle Income Group) and HIG (Higher Income Group) housing. The enormous gap in the LIG/EWS (Lower Income Group/Economically Weaker Section) market segments offer untapped opportunities for the private sector construction agencies to identify such demands and respond on a commercial and sustainable basis. This market has been largely served by the public housing agencies. The financial sector has recently opened up to the housing market. The mortgage based loans are being provided by ICICI Bank in order to acquire real estate for commercial purposes, as well as working capital.

Mahesh (1998) was of the opinion that the present generation is more ambitious than the previous ones. He further emphasized that it is this ambition which drives the young people to buy house. Bhalla (2008), analyzed the institutional performance of housing finance in the post liberalization period and studied how different players in the field of housing finance are evolving in India. Gaur (2009), made a comparative study of satisfaction of the borrowers from the selected banks (ICICI Bank and SBI). It was inferred from the study that ICICI Bank has excellent staff members in terms of behaviour in comparison to the staff members of SBI. Further, the services of ICICI Bank are much better than the services of SBI.

As per the FICCI survey (2003), incomes of families are rising and the purchasing capacities along with the loan repaying capacity are going up. Earlier a large number of borrowers used to be in the late 30's and early 40's. But today greater number of borrowers is in their mid-30's.

Prakash (2012) examined the relationship between macro-economic variables and housing prices. The relationship between local unemployment, mortgage rates and local house prices was studied. Factors affecting house prices were also discussed.

Objectives of the study

The paper studies the challenges of the mortgage industry in India with special reference to ICICI bank Ltd. An attempt has been made to study the changes and innovations required in the financial sector for better performance of the Indian mortgage industry especially the housing sector. Attempt has been made to independently judge the changes or concerns raised by the customers for the challenges faced by them to be implemented by the financial sector and government bodies. The main objectives of the paper are:

- To study the parameters valued by the consumers in context to housing projects.
- To study the requirements and analyze the innovations required in mortgage industry (housing projects) for future sustainable growth.
- To provide mortgage banking institutions with innovative systems and practices that are critical to the success of the industry.

Methodology

The study was conducted on customers of ICICI Bank Ltd. A sample of 120 borrowers was selected covering different age group, employment status, income groups and

educational qualification. The data was collected through self-administered structured questionnaire specially developed for the study. Information from the customers was gathered on a 3 point Likert scale. Data thus collected was tabulated and analyzed using appropriate statistical measures.

Findings

The results of the study indicate the different mortgage parameters as valued by the clients of ICICI Bank Ltd.

Legality of the project

This is the most important factor/indicator which the customers looks into while dealing with the bank as has been given a rank of one. ICICI Bank takes due diligence to check the legality of the project before they start funding for a particular project. The bank takes due diligence to check the title of the property via external and internal lawyers and also does the technical evaluations consisting of map approval, forest department, environmental clearances and the urban development authorities besides checking the credit worthiness of the builder and the partners. This ensures the ease of funding of the project and ICICI bank gives a unique APF – Approved Project Funding number to the builder for all future transactions.

Table - *Customers Response / Ranking on various parameters*

Parameters valued	MEAN	RANK
Legality of the project	3	1
Cost and fund ability of the project	2.6	2
Return on investment	2.4	3
Project completion time and due delivery as per specifications	2.1	4
Support infrastructure by the government for housing societies	1.9	5
Quality of construction	1.8	6
Builder reputation	1.4	7

Cost and fund-ability of the project

Cost plays an important factor and has been given a rank of two. The customer perceives the cost of the project or the housing so that they are not taken for a ride for undue price escalation. Furthermore the customer is concerned about the quantum of funding of the project. The bank does a cost analysis internally while calculating the bank pricing for the project to understand the project feasibility based on the costing depending on the geo

location of the project, size of the project, experience of the builder and other factors for fund ability to the builder as well as the end users i.e. the customers. “I got the best deal with ICICI Bank Home Loans. We could buy our dream home right from where we were. With ICICI Bank’s doorstep service, easy installment options and fast execution, our dream is now a reality. ”

Return on Investment

The customer looks also for the future trends of the project, rental index of the area and the infrastructure development in the area over time. The builder as well the consumer looks for exponential growth of his investment. The parameter has been ranked third with a mean score of 2.4. The bank helps on this parameter through its subsidiary property search group for catering to the specific needs of the customer at a cost for specialized service.

Project completion time and due delivery as per specifications

The industry is maturing with mortgage easily available and it is important for the customer that the project delivery is given on time and as agreed by the builder. Consumers rank project completion time and delivery as per specifications as no. four. Control mechanism is required through government bodies yet to be constituted to ensure the timely delivery for safeguarding the public funds delivered to the builder for the project and also for delivering the housing unit in time to the consumer. the bank as on date is doing advance disbursements only to the reputed builders and disbursing the loan amount to the builder only as per the stage of the construction with due diligence.

Support Infrastructure by the government for Housing Societies

One of the important factors keeping in mind the haphazard development coupled with mushrooming of the societies in the urban cities is the presence of support mechanism. Though it is an important factor for the project, it has been ranked very low at no. five (mean score 1.9) by the respective respondents. Moreover, not much is being done by the banks as well in this regard. The government should have a master plan for the city periphery and the basic infrastructure in place before the commencement of any project for meeting the basic requirements.

Quality of construction

It is an important factor as most of the consumers are now complaining of the substandard materials being used in the construction normally visible after 3-5 years after the project has been completed with no control on the builder and no accountability of whomsoever. Unfortunately the new buyers, especially first time buyers, investors do rarely take care of this factor and have ranked it second last.

Builder Reputation

The credit worthiness of the builder and frauds done by the builder and the promoters do not matter for the customers as ‘builder reputation’ has been ranked as last (with a mean score of 1.4) by the respondents. However, the banks play an important role as they approve and fund the project only after checking the background of the builders.

Challenges ahead

1. Bottlenecks like low penetration capability, ignorance amongst masses, poor accessibility, lengthy processing time, and elaborate documentation are hampering smooth growth of this industry in India.
2. Absence of single window clearance is yet another issue being faced.
3. Most of the customers are not familiar with the basics of home loans, and are not sure what the best home loan option is.
4. Providing mortgage banking institutions with innovative systems and practices that are valued and recommended by the customers are critical to the success of this industry.
5. A mortgage is huge investment in one's future. It can be a financial hardship or a gold mine for some people. Property values vary depending on areas, and mortgage rates can vary depending on banks which is another important issue.
6. CIBIL (Credit information Bureau India limited) is the only database company providing the credit worthiness of individuals and entities and is at an infant stage.

The India mortgage sector has shown growth in the past few years with commercial banks playing an important role in its development. The ICICI Bank mortgage service is among the major mortgage provider in the Indian mortgage market. We are all aware of the challenges faced and lessons learned over the past year and there's no doubt that every component within the mortgage banking process has been impacted. Following are the suggestions in this regard:

Suggestions

- Legal rules and penalties to safeguard the interest of the banks and customers should be formulated.
- Standardized process for all financial institutions through National housing bank – an RBI initiative is strongly recommended.
- State bodies to check the quality of construction and safeguard the people against fraud and acceptable norms for safety as per international standards.

- The government should further introduce tax rebate for housing and sops for industrial and SOPS for development of the new areas and so forth.
- Banks are advised to serve the lower income households as well to sustain in the future in conjugation with EWS by providing comparatively easier norms for availing finance.

Conclusion

The Indian mortgage market in recent years has been witness to intense competition. Gone are the days, when getting a home loan was a tough task. Nowadays, obtaining a home loan is a cakewalk, thanks to low interest rates, income tax benefits, and competition among the Housing Finance Companies (HFCs). ICICI bank emerges as the dominant force in the Indian mortgage market which primarily initiated the process for easy loans and started the pace in this industry. The banks should emphasize on the parameters valued by the customers if they have to stay and compete in today's mortgage sector. A control mechanism is though required for the sustained growth of the mortgage industry and for the industry to perform and deliver constantly to meet the future requirements of modern India and meet the international standards of housing, commercial property, project funding, equity funding etc. to cater to the needs to the business class as well as the salaried class. Recently, the government has accepted suggestions for the revamping of land laws, rental laws, and registration process along with setting up of credit rating organization and modern mortgage insurance products for the fast-growing mortgage market of India. Prudently to go ahead in the mortgage industry and learn from the international turmoil we need to go a long way in constructing regulatory bodies at central and state level for support for a better structured finance system to own a property and make owning a property by an entity a reality from a dream.

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