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Impact of mortgage finance in India

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Abstract
Mortgage sector considered a very important sector in today's global economy. Importance of this sector increased in few years. Across the globe many countries consider mortgage sector as one of the important parameter of their economic growth. The mortgage is a debt, but it provides a sense of ownership to the buyer.
Mortgage financing over the years has been a preserve for mortgage financing companies but with time, commercial banks have started engaging efficient housing finance system has significant importance both in meeting the housing needs of individuals and in reinforcing the development. The objectives of the study were to establish the effects of mortgage financing on Financial Performance of commercial banks. The study had four specific objectives establish effects of repayment period, interest rates, income levels of borrowers and valuation cost on performance of mortgage financing.

Keywords: Global period, interest rate, mortgage, economic growth, financial performance

Introduction

`"Mortgage" is nothing more than the name given to a particular type of loan; in this case, a real estate loan.3 Like any other loan, it is really an IOU-that is, a promise to repay a sum of money received today at some future time. Although the names of loans change for a variety of reasons, they all have the same basic characteristics: the loan amount, the loan term, the schedule for repayment, and the contract interest rate.
The amount of a loan is just that-a sum of money that the borrower receives upon signing the loan agreement. The term (or maturity) of the loan is the length of time over which the loan amount is to be repaid. The schedule for repay- ment simply states how the loan is to be repaid. Loans can be repaid in installments over the term of the mortgage, in a lump sum at the terminal date of the contract, or in some combination of installments and a final lump sum payment. In the case of mortgages, auto loans, and other con- sumer loans, the convention is that the loan is repaid in fixed periodic payments, typically monthly. The contract interest rate is the interest rate that the borrower pays the lender in exchange for having the money today.
There are two risks associated with lending. The first, called default risk, is the possibility
The housing sector in India for several decades faced a number of set-backs, such as an unorganized market, development disparities, a compartmentalized development approach and a deterrent rent control system. There was not even a concerted attempt to understand the housing problem let alone promote it. The Indian mortgage industry has grown at a 16% CAGR over the past five years. Based on our analysis, the mortgage industry in India is 9-11 years behind other regional EMs like that in China and Thailand, in terms of penetration in the economy. Due to various structural drivers, such as young population, reducing family size, urbanization and rising income levels, we believe the growth rates in this segment should remain healthy over the longer term.
Housing demand still needs to be fulfilled. This is because of the shortage of funds and inadequacy of financial institutions, coupled with an increase in building material, labor and land costs. Housing finance in developing countries is a social good in view of its backward and forward linkages with other sectors of the economy. 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). The market is flooded with HFCs, which are competing to attract customers with a

number of offers. Most of the customers are not familiar with the basics of home loans, and are not sure what the best home loan option is.

A home buyer or builder can obtain financing either to purchase or secure against the property from a financial institution, either directly or indirectly through intermediaries. Features or characteristics of mortgage loans can vary significantly according to financial institution/s. In India, Initially people took their loans from small traders and pay higher rate of interest on the amount borrowed by borrower. Higher rate, lack of proper rules and regulation, lack of security were basic disadvantages for home buyers. In last two decades, government intervenes and made new policies which create transparency in house dealings for all stakeholders. Government considers this sector as an important part in their every year union budget. By taking mortgage loan borrower also get tax benefits so people prefer to take home loan for investment purpose and to get tax benefits. On the other side, for few borrowers purchasing a home is necessity and few believe in increasing their wealth or assets. Reverse mortgage loan is also a one type of loan.

Mortgage finance

Now that we have discussed some facts about mortgages and the mortgage market, it is time to discuss the nuts and bolts of mortgage payment schedules and the real effective interest rate that one pays when taking out a mortgage. We begin our discussion by showing how the fixed, monthly payment on a fixed-rate mortgage is determined. To make the discussion as concrete as possible, we consider a borrower who wants a $200,000, 30-year, fixed-rate mortgage with a contract inter-est rate of 6 percent annually. The question is how much will this borrower have to pay each month to pay off the loan in 30 years? The answer, $1,199.10, is obtained from the formula.

Mortgage Finance Sector in India

Mortgage sector in India, being the second largest democratic country, was perhaps the first to respond positively to the growing international concern on housing development by evolving a shelter strategy and through organization of housing markets (United Nations Human Settlements Programme. It evolved sector policy in the late 1990s besides attempting to organize a financing system. These measures set to themselves goals to achieve in coordination with governments at different tiers. Especially, to boost the housing activities in the market, fiscal incentives in the form of exemptions to both individuals and corporate sector were introduced largely in the 1990s.

In India, Initially people took their loans from small traders, zamindars or tehsildar and these people charge higher rate of interest on the amount borrowed by borrower. This was a very big problem in rural area. Nowadays rural people are also become aware about the different mortgage loan schemes. Government considers this sector as an important part in their every year union budget. By taking mortgage loan borrower also get tax benefits so people prefer to take home loan for investment purpose and to get tax benefits. On the other side, for few borrowers purchasing a home is necessity and few believe in increasing their wealth or assets.

Shelter Policy is the first bold step towards addressing the various housing problems of the country. In many respects, the National Housing and Habitat Policy-1998 (NHHP) as adopted by the Indian Parliament are different as compared to the National Housing Policy of 1987. The NHHP is claimed to have initiated "Housing Revolution" leaving aside all the hangovers against ever increasing population. It emphasized creating a facilitating environment for the growth of housing activity rather than government taking on the task of building. In order to do so, it laid the foundation to build public-private partnerships for tackling the housing and amenities problems.

In last two decades, Government of India made new policies which are helpful for people who want their own house. In 2015, Government of India has taken a very significant step towards it by launching Pradhan Mantri Awas Yojna, 'Housing for all scheme, especially planned for the people who can't afford a house under their financial circumstances. This scheme is targeting the Lower Income Groups (LIG) and Economically Weaker Section of our society (EWS), basically the urban poor. Government helps them by giving financial benefit so that everybody has their own house.

The mortgage market

The mortgage market is a phrase that describes a vast array of institutions and individuals who are involved with mortgage finance in one way or another. This market is broken down into two separate yet connected entities: the primary mort- gage market and the secondary mortgage market. The primary mortgage market is a market where new mortgages are originated. The secondary mortgage market is a market where existing mort- gages are bought and sold. Historically, the secondary mortgage market was small and relatively inactive. India Home Mortgage Finance Market Trends.

This section covers the major market trends shaping the India Home Mortgage Finance Market according to our research experts.

Availability of Affordable Housing in India is Driving the Market Growth.

The housing market has undergone a structural transformation in both the demand and supply sides over the last decade. This has resulted in a safe and attractive home-buying environment for buyers. Housing loans contribute around 50% of personal/retail loans. Housing affordability has improved over the last eight years. It reached its best levels last fiscal year and remains fairly attractive.

India Home Mortgage Finance Industry Overview

India's home mortgage finance market is fragmented market. It has the presence of over 40 considerable regional and local players in the market. Although banks dominate the India home mortgage finance sales in 2021, a significant growth can be observed for non-bank lenders in the near future. Companies including, HDFC Housing Finance, LIC Housing Finance Limited, Indiabulls Housing Finance Limited, L&T Housing Finance Limited, and PNB Housing Finance Limited, among others have been profiled in the report.

India Home Mortgage Finance Market News: November

2022: Tata Capital Housing Finance, a Tata Capital subsidiary, intends to push into the home loan market significantly. To do so, it is looking for the capital of INR 3,000 crore from the National Housing Bank and intends to raise INR 1,000 crore through bonds. Both retail and real estate developers are expected to be eligible for financing from the organization.

October 2022: Private sector lender HDFC Bank will complete its planned merger with Housing Development Finance Corp. Ltd by the first quarter of FY24 instead of the original target of the third quarter.

India Home Mortgage Finance Industry Segmentation

Home mortgage finance is the process of offering something as a guarantee or collateral against a loan to purchase a house. They are used to buy a home or borrow money against the value of a home you already own. It is offered by a bank, mortgage company, or financial institution to purchase a primary residence, a secondary residence, or an investment residence.

The India home mortgage finance market is segmented by source (Housing Finance Companies (HFCs) and Banks), by interest rate (fixed rate and floating rate), and by tenure (Upto 5 years, 6 10 years, 11-24 years, and 25 - 30 years). The report offers market size and forecasts for India Home Mortgage Finance Market in value (USD Million) for all the above segments.

India Home Mortgage Finance Industry Report

Statistics for the 2024 India Home Mortgage Finance market share, size and revenue growth rate, created by Mordor Intelligence™™ Industry Reports. India Home Mortgage Finance analysis includes a market forecast outlook to 2029 and historical overview. Get a sample of this industry analysis as a free report PDF download.

India Home Mortgage Finance Report Snapshots.

India Home Mortgage Finance Market Size.

India Home Mortgage Finance Market Share.

India Home Mortgage Finance Market Trends.

India Home Mortgage Finance Companies.

Research Methodology

Research design refers to the way the study is designed, that is the method used to carry out the research. The research design is the plan and structure of investigation so conceived so as to obtain answers of the research questions. The plan is the overall program of the research and includes an outline of what the investigator will do from writing the hypothesis and their operational implications for the final analysis of data. The essential of research design as an activity and time based plan, always based on the research questions, guides the selection of sources and types of information, a frame work for specifying the relationship among variables and outlines the procedure for every research activity.

The research design as the outline plan that is used to generate answers to the research problems, it is basically the structure and plan of investigation. The researcher will use a descriptive research design. Descriptive research seeks to establish factors associated with certain occurrences, outcomes, conditions or types of behavior. This is deemed appropriate because the study will involve in depth a study of mortgage financing and its effect on the financial performance of commercial banks in Kitale which will help the researcher in describing the state of the real current situation of banks. A descriptive study will be undertaken in order to ascertain and be able to describe the characteristics of the variables of interest in the study.

Major players in mortgage sector in India

When the World Economy was shaken by the crisis, India was minimally effected by the financial shake up. This can be traced back to the good Credit Sense employed by the Indian lending institutions. The sound principles followed by the lending institutions are a result of the strong regulation enforced by the Reserve Bank of India (RBI) the Central Bank of the country. There have been continuous efforts on the regulators part to strengthen the financial and lending system by establishing various agencies. In India, the top players in this industry are housing finance companies, commercial (local as well as foreign) banks, cooperative banks and other non- banking financial companies.

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The National Housing Bank (NHB), wholly owned by RBI, is a principal agency established in 1988 to direct and regulate, arrange financial assistance and provide refinance support to the housing finance companies.

The Credit Bureau Report was introduced to the Indian Lending industry in 2000 with the formation of CIBIL - Credit Information Bureau (India) Limited. This has aided the collection of data on a customer's borrowing and payment history. This has been a boon to the industry.

The NHB and CIBIL have joined hands to set up a Mortgage Registry and a Fraud Registry. These repositories will have the database of the registered mortgages and the fraudulent customer details, respectively. Thus helping lending Institutions make more informed decisions. The Credit lending process has to be stringent, thorough and vigilant on one hand; and yet prudent with the aim of growing business and penetrating the market, on the other. The Indian mortgage lending institutions have the responsibility of fulfilling the dichotomy of these two objectives.

The principal aim of lending is loan 'recovery', and 'income generation' through the sale of mortgage assets is incidental.

Financial products like Securitization and Credit Default Swaps are still in the nascent stage of development.

Recent trends in the Indian mortgage sector show that mortgage sector is become more competitive and market is consolidating in the hands of larger firms. Some of the major players are as follows.

HDFC Bank Mortgage Service.

State Bank of India Mortgage Loan.

LIC Housing Finance.

Bank of India Mortgage Scheme.
State Bank of Mysore Mortgage Loan.
United Bank of India Mortgage Scheme.
ICICI Bank Mortgage Service.
Canara Bank Mortgage Service.
Bank of Baroda Mortgage Scheme.
Union Bank of India Mortgage Scheme.

Financial services in Indian mortgage sector: Few years back financial services are focused only on urban areas despite huge business potentials in rural areas. In the total housing problem of the country, the rural segment with 77% could attract only around 6% of the total plan outlays in housing as against 94% of investment in urban areas with 23% of housing shortage. Hence, Indian government making new plans and policies in favour of home buyer so they get benefited and try to build their house with all basic amenities even in rural area.

There are two conspicuous developments in the market segment of housing finance. First and foremost is the availability of housing finance at the convenience of the consumers. Barring a few, almost all the HFIs have made their financial services available for a minimum of three periods, i.e., up to 5 years, above 5 years and below 10 years and above 10 years and below.

Status of reverse mortgage in india: Senior Citizens are a growing section of the Indian society and dependency in old age is increasing in the country. While on the one hand, there is significant increase in longevity and low mortality, on the other hand cost of good health care facilities is spiraling and there is little social security. Senior Citizens need a regular cash flow stream for supplementing pension/other income and addressing their financial needs. Also, secular increase in residential house prices has created considerable "home equity "wealth. Government of India introduced the Reverse Mortgage Scheme in its budget 2007-08. The National Housing Board has been given the task of drawing up the regulatory mechanism to enable the use of reverse mortgage in the country.

In US, reverse mortgage is also very famous. This type of mortgage loan is specially for senior citizens. Individuals would accumulative house properties during their life time. However after retirement due to liquidity issues Senior citizens might not be able to utilize the benefits from such house property, so reverse mortgage provide the solution to this problem. The basic specialty of reverse mortgage loan is borrower do not need to repay the loan till his or her death and he/she will get monthly or lump sum payment from the mortgage bank to fulfill his/her requirement.

Thus Reverse Mortgage is a contract between a home owner and a financer which enables the homeowner to receive a stream of income, especially after retirement.

Features of reverse mortgage

The loan is available to senior citizens owning a house.

It is a tailored product to monetize the locked up equity in the asset.

There is no upper age limit for availing this product

1. There are two parties involved in it. One is the borrower ise the senior citizen and other is the lender ise Bank/HFC
2. There is no income requirement of any kind which is usually inseparable from any other type of loan.
3. It does not involve losing ownership of the house. One can stay in house and it enables regular inflow of funds.
4. Cash flows can be arranged at periodic intervals. It can be in the form of lump sum or multiple payments like annuity etc. The borrower can use this amount for any purpose except speculation.
5. The quantum of loan and interest rate depends on several factors like age, valuation of the property, structure of asset, maintenance of the property. Revaluation of the property has to be taken once in every 5 years as a result the loan amount will be adjusted considering above mentioned factors. The loan amount is directly correlated with the age.
6. The interest rate on the product will be determined by the banks and HFCs based on the risk perception and loan pricing policy. HFCs and Banks offer fixed or floating rate of interest subject to transparent disclosure of terms and conditions to the borrower.
7. The amount received through reverse mortgage is not considered as income as it is not taxable.
8. Loan is not required to be serviced ise there is no payment requirement on a continuing basis as required in other loans, repayment is due on the occurrence of an event or at the end of the term, ie; 15 years.
9. The lender will recover the loan along with the accumulated interest by selling the house after the death of borrower or lapse of time period for which loan has been taken. Any excess amount will be remitted back to borrower or his heirs.
10. Before resorting to sale of house, preference will be given to the owners or his heirs to repay the amount along with interest and get the mortgaged released (Brar, 2011) [8].

Benefits of reverse mortgage

1. This financial product is meant for people whose property has good value but is short of cash flow to meet their expenses. They are often called "asset rich but income poor" Reverse Mortgage will give them opportunity to generate income from that very home.
2. This product will ensure regular income against the value of their property that helps them in attaining higher standards of living and better access to health care.
3. This product is useful to senior citizens who are not cared by their children. By going in for it they can mortgage their property without depending on others for their financial needs. It can supplement retirement income. By availing this product senior citizens can continue their own life style without depending on others. The can plan for pilgrimage etc. by resorting to this financial product.
4. It is a non-recourse loan under which the bank/HFCs will never come after any person for repayment of the loan. The lenders can only receive payment of the loan from the value of the house.
5. The proceeds from the Reverse Mortgage being payments on capital account will be exempt from taxation.

6. It does not involve losing ownership of the house and at the same time a stream of cash flow is arranged at periodic intervals. The security net for the lender is the security of the house whose value is always on rise.
7. Borrower can choose the mode of availing the loan. It can be disbursed by periodic installments or by lump sum or as a line of credit to be drawn in the times of need (Brar, 2011) [8].

Reason for fewer acceptances

Although this scheme was introduced by Indian government in 2007-2008 union budget but this scheme has not been popular in India because of multiple reasons. In India investing in real estate is a highly emotional decision. When a family lives in a house for 20-25 years then it's difficult to see the ownership going out of hands to any financial institution. The decision is more difficult when one has built the asset through loan. Thus, the house one buys in his lifetime is actually perceived to be an asset for next generation. Considering that here still children take care of their parents in their old age no parents wish to take on any liability on the house and pass it on to the children.

Indian government have many pension schemes so people usually have their regular income from pension, real estate prices are increasing year by year so the valuation of the property is also increasing as the market prices, lack of awareness about the scheme, etc. are reasons attribute of the slow acceptance of Reverse Mortgage Scheme in India.

International mortgage sector

Across the globe, retail lending has been the most spectacular innovation in the commercial banking sector in recent years. Retail loans comprise consumer credit for specific purpose and credit for general use. The surge in credit to the retail segment across developing as well as developed economies has occurred due to commercial banks shifting from traditional banking activities to a broad-based lending portfolio. The growth of retail lending, especially, in emerging economies, is attributable to the rapid advances in information technology, the evolving macroeconomic environment owing to financial market reform, and several micro-level demand and supply side factors. Technology induced innovative financial products have facilitated strengthening of balance sheets and income structures of banks. Technology has enabled a significant reduction in cost of external finance for borrowers, while banks have benefited from product innovations, and lower transaction cost associated with collection, processing and use of information. This, in its wake, has offered banks better techniques for risk management and pricing of products. The surge in retail lending, however, has certain limitations. Retail lending may accentuate indebtedness of households, with implications for sustainability of private consumption and saving in the medium to longer horizon. Rapid increase in retail loans may impinge on bank credit for investment activities with implications for economic growth. Several cross section studies suggest that retail lending may, however, pose various risks with implications for banks asset quality (Gaur, 2009) [8].

The mortgage industry in the US is both huge and highly developed, offering numerous mortgage products with a range of repayment options. The United States of America has the most active mortgage market in the world, and mortgage services are provided by a number of entities, including individual and organizational mortgage providers. Other types of mortgage brokers work in both individual and as organizational capacities. With all the players involved and with intense competition.

Conclusion

Like India in all over the world there are many countries that provide mortgage loan and make their people's life more easy and comfortable so that they can live in their dream home easily and also get other benefits. Mortgage sector also generate employment for many unemployed people in any country. There are many HFCs are opened and their basic business is mortgage loan. With the help of these HFCs borrower can take loan easily, these organizations help them in taking loan (for e.g. Required documents, different verifications, tax benefits, interest rate information, EMI information). These process will help borrower in understanding the actually mortgage loan life and make it easy for them to proceed.

Sometimes borrower also needs to verify from other sources (for eg. People who have already taken a loan, other HFCs for comparison of interest rate and hidden cost information, etc.). While concluding we can say that this sector helps any country to increase their economic growth as well as people of the country also gets benefited with the same.

Reverse mortgage is a very good option for those senior citizens who do not have pension/any income after retirement and also for those who does not want to depend on anyone in their old age. If we consider the tax-free lifetime annuity, Reverse Mortgage is a good scheme to rely upon when the financial constraint is too much and there is no recourse. Also, if a person has more than one property but do not have sufficient source of income after retirement and want to keep his/her property for his/her successor, he/she can take reverse mortgage loan against one property and keep other property secure for his/her heirs. With this option, the risk of living longer is also taken care of and with better payouts. The house ownership can always be claimed back by paying the loan availed. If institution sells the house then cash surplus, if any, is paid back to legal heirs. In a nutshell, the scheme in its present form does provide a good option for retirees to plan their post-retirement income.

This paper addresses a number of significant issues facing the prospective home buyer. For most people, buying a home is the largest pur- chase they will ever make, and a thorough under- standing of the terminology and structure of the residential finance market can mean the differ- ence between an agonizing experience and a rewarding one. Although the mortgage industry is too sophisticated to describe completely in this short paper, hopefully the concepts elucidated here will reduce the anxiety for those trying to finance the American dream.

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