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## COMPREHENSIVE PROBLEMS OF HDFC AND SBI HOME LOAN TAKERS - A STUDY IN TELANGANA STATE

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**ABSTRACT**

*The study finds out that the Housing Finance in India faced a number of set-backs in decades, such as an unorganized market, development disparities and compartmentalized development approach. There was not even a concerted attempt to understand the housing problem let alone promote it. Reforms introduced in the sector during the 1990s, however, have overturned the situation to a great extent. The deigning of a shelter policy, the organization of the housing finance market, the introduction of fiscal incentives, increased public investment, legal reforms and others initiatives have brought about a number of changes in the housing finance. Home Loan providers should continue to address the huge potential in the industry and would maintain their focus on the individual loan segment. A trend that has emerged over the years in the housing finance is that the decreasing role of interest rates as a competitive tool. Service and product innovations are the key tools for success at present.*

**KEYWORDS**

HDFC home loan, SBI home loan, Telangana state.

**INTRODUCTION**

Housing finance is a relatively new concept in India comparing to other financial services that are widely available in the country since a long year back. However, the speedy development in housing and various housing activities have understandably led to the growth of Indian housing finance market. As a result, a number of players have barged into the market. It was in the year 1970 when Housing and Urban Development Corporation (HUDCO) was established to finance various housing and urban infrastructure activities. However, the Housing Development Finance Corporation (HDFC) was the India's first private sector housing finance company came into existence in 1977. Since then, the housing finance in India has been flying high. It's expected to grow at a growth rate of 36% in the coming years. HOUSING SECTOR Housing Sector refers to the entire construction activity, it has maximum propensity to generate income and demand for materials, equipments and services. In fact, housing provides necessary impetus to the economy as a whole. Small initiatives in housing will propel multiplier effects in the economy through a chain of linkage effects. For every one crore rupees of investment in housing, nearly 290 industries in the building material sector get activated besides the core manufacturing sector constituting cement, steel and bricks etc. It has been estimated that out of every Rs. 100 spent on housing Rs. 11.40 is returned back to the national exchequer by way of stamp duty, registration and taxes. Housing Sector has seen exceptional changes in the last 15 years, both globally and nationally. In the last few years, the housing sector in India has witnessed a spurt in demand not just for residential property but also for commercial property. This rise in demand may be attributed to the large and growing middle class population of 300 million people. The Technology and business Process Outsourcing have correspondent to growing demand for shopping malls, multiplexes, food outlets, office spaces ad business centers etc. HOUSING FINANCE blessed are those who live in their own house and fortunate are those who have the money to buy one. But all are not privileged to buy a house of their own. For many such people, buying a house has become possible in modern times through Housing Finance. The term "Housing Loan" or "Housing Finance" means fiancé for construing/purchasing or modifying a property. The various Hosing Loans offered by Housing Finance institutions (HFIs) are for house Purchase, house extension, house improvement and land purchase. Hence, "Housing Finance" means the financial resources for an individual or group of persons used especially for the purpose of housing. HOUSING FINANCE IN INDIA Rao/A Study on Comprehensive Problems of HDFC & SBI Home Loan Takers in Telangana State Home-buyers in India were traditionally debt averse and opted for external funding only as a last resort. Consequently, formal external funding of house construction/purchase has accounted for a relatively small proportion of housing finance in the three decades after independence and this business activity had formally began in India in the 1970s. Construction/purchasing of a house needs a large investment, it requires long-term finance. In India, the main source of credit that flows into house construction is both formal and the informal sectors. The formal sector includes budgetary allocation of Central and State Government, assistance from the Financial Institutions, agencies and corporations like Life Insurance Corporation (LIC) and General Insurance Corporation (GIC) etc., the latter, it refers to finance from money lenders, household savings, disposal of existing property and borrowings from friends and relatives. Since independence, the institutional framework for housing finance was in the form of insurance companies like LIC and GIC. Then in 1970, the Government set up the HUDCO as a 100 per cent, Government owned enterprise with the objective of housing and urban development as well as infrastructure development.

The housing policy of HUDCO was designed to allocate 55 per cent of its housing finance to the low income and weaker sections of society. Housing Development Finance Corporation (HDFC): HDFC was incorporated in 1977 with the primary objective of meeting a social need that of promoting home ownership by providing long-term finance to households for their housing HDFC was guided by its core objective housing for all, though the development of the Housing Finance Sector in India. It is viewed as an innovative institution and a market leader in the housing finance sector in India. The World Bank considers HDFC, as a model Private Sector Finance Company in developing countries and a provider of technical assistance for new and existing institutions in India and Abroad. State Bank of India (SBI): The State Bank of India, the country's oldest bank and a premier in terms of balance sheet size, number of branches, market capitalization and profits. It is the two hundred year old Public Sector Bank. It is the bank having very wide product mix, such as Project fiancé, Home loans, Auto loans, Car loans, Education loans, Loans to Small Medium Enterprises, Government business, Rural and Agri business, Corporate Business etc. SBI is moving ahead with cutting-edge technology and innovative new banking models, to expand its rural banking base, looking at the vast untapped potential in the hinterland and proposes to cover 100,000 villages in the next two years. It is the only India bank to feature in the Fortune 500 list. Need for the Study: Today due to inflation in the economy, there is rise in the price of all commodities. Due to this, an ordinary individual is not able to save sufficiently to meet the high cost requirement of house construction or purchase. He has to essentially depend upon of the Financial Institutions (FIs) for borrowing money for the purpose of house constructions or purchase. The proposed study will bring out the various sources of finance for house construction/purchase and a detailed study about the types of home loans, loan procedure and documents required for home loan sanction from the FIs. There is a need to examine the housing policies, Government and RBI initiatives in order to appreciate the liquidity in the housing finance sector.

**REVIEW OF LITERATURE**

- Sangwan and Bhan (2012) this study can find out the satisfaction level of customers and problems faced by them in obtaining home loans. For this purpose, we have taken four commercial Banks in Chandigarh city namely H.D.F.C. Bank, Punjab National Bank(P.N.B.), Union Bank of India and Industrial Credit and Infrastructure Corporation of India(I.C.I.C.I). Bank. It includes two public sector banks and two private sector banks. In the research methodology a sample size of 200 respondents has been taken through random sampling. They have taken both primary data as well as secondary data, in the primary data questionnaire has been used to check the satisfaction level of customers about home loans. In the secondary data, the annual reports of RBI, commercial banks and brochures of these banks have been studied. Finally, the whole research was carried out in a systematic way to reach at exact results. The whole research and findings were based on the objectives. Some of the limitations faced in collecting the data were Lack of time, lack of data, non-response, reluctant attitude and illiteracy of respondents, which posed problems in carrying out the research

- Gupta and Agarwal (2013) this is a comparative study in Meerut city, India, to evaluate service quality and resultant customer satisfaction in private banks as compare to public sector ones.
- Rao (2013) this study discussed about the perception and problems of home loan takers in Andhra Pradesh. The author has focused on research by taking into account H.D.F.C. and S.B.I. bank. The paper discussed about the Housing Policy frame work, trends and progress in Housing Finance, the operational performance of H.D.F.C. and S.B.I. with regard to providing housing finance to individuals, perception and problems of home loan takers in the State of Andhra Pradesh. The author concluded by stating that the Housing Finance in India faced a number of set-back in decades but the designing of a shelter policy, the organization of the housing finance market, the introduction of fiscal incentives have brought about a number of changes in the housing finance. The services and product innovations are the key tools for success.
- Thakur G. (2014) this study concluded that people prefer H.D.F.C. bank more than S.B.I bank for home loan. As private banks are coming daily in our country still, mostly people prefer government banks for loan especially older persons are more dependent on government banks. It is true that younger population preference is changing and they prefer more private banks because of services and facilities provided by private banks. The interest rate is lower in public (S.B.I.) bank in comparison with private (H.D.F.C.) bank but services are not up to the mark.
- Kumara swamy (2014) this study discussed about the importance of housing finance and the institutions providing housing finance. A detailed discussion of the marketing strategies adopted by financing institutions have been discussed by taking into account the loan criteria eligibility, loan amount, interest rate, security, loan tenure, margin and processing fee. Finally, the paper highlights the performance of the housing sector, major findings and suggestions to improve the effective marketing of housing finance for both public and private sector banks.
- Sharma and Garg (2014) this study concluded that the public sector banks are very popular among the customer these days because the interest rate is lower in State Bank of India as compare to H.D.F.C. bank and the trust level that customer have with these banks is very high in comparison to H.D.F.C. bank. The public sector bank also provide better facilities and services to the customer and give all the information to the customer time to time through Short Message Service(SMS) and internet banking. The information provided by the private banks is sometimes fake and they tried to cheat customer for their own benefits.
- Gupta and Sinha (2015) this examining on the respondent regarding the purchase of home loan and low rate of interest, easy accessibility, status/ reputation of the institution and scheme offered by the company are the major factor for selection of the housing finance institution comparative study on Factor Affecting consumer's Buying Behavior towards Home Loan (with special reference to S.B.I. and L.I.C.H.F.L.)" and found that fixed rate of interest is most preferred option by the customers.
- Chithra and Muthurani (2015) this study conducted on customer perception towards home loan in H.D.F.C are done Chennai with the 85 sample size and simple random sampling. The study shows that H.D.F.C. bank home loans has product portfolio for satisfying different consumer needs. The bank has got goodwill and this can be used for promoting its services. If new promotional activity and services introduced, it will help very much to organization to increase the business.
- Murugan and Jansirani (2017) a study carried out in Chennai to Customer perception towards home loan by selecting the 500 customer on randomly basis. This study made an attempt to evaluate in depth the performance and operational problems faced by the banking sector in extending finance to the housing sector and based on findings; identify the areas of concerns and strategic interventions required

## TYPES OF HOME LOAN

There are different types of home loans available in the market to cater borrower's different needs.

- Home Purchase Loan
- Home Improvement Loan
- Home Extension Loan
- Home Conversion Loan
- Home Construction Loan
- Land Purchase Loan
- Bridge Loan

**a) Home Purchase Loan:** These are the basic home loans for the purchase of a new home. These loans are given for purchase of a new or already built flat/bungalow/row-house.

**b) Home Improvement Loan:** These loans are given for implementing repair works and renovations in a home that has already been purchased by the customer. It may be requested for external works like structural repairs, waterproofing or internal works like tiling and flooring, plumbing, electrical work, painting, etc.

**c) Home Construction Loan:** These loans are available for the construction of a new home. The documents required by the banks or bank for granting customer a home construction loans are slightly different from the home purchase loans. Depending upon the fact that when customer bought the land, the lending party would or would not include the land cost as a component, to value the total cost of the property.

**d) Home Extension Loan:** Home Extension Loans are given for expanding or extending an existing home. For example addition of an extra room, etc. For this kind of loan, customer needs to have requisite approvals from the relevant municipal corporation. Vol-3 Issue-4 2017 IJARIE-ISSN (O)-2395-4396 6205 www.ijarie.com 1789

**e) Home Conversion Loan:** It is that loan wherein the borrower has already taken a home loan to finance his current home, but now wants to move to another home. The Conversion Home Loan helps the borrower to transfer the existing loan to the new home which requires extra funds, so the new loan pays the previous loan and fulfills the money required for new home.

**f) Land Purchase Loan:** Land Purchase Loans are available for purchase of land for both home construction or investment purposes. Therefore, customer can be granted this loan even if customer is not planning to construct any building on it in the near future. However, customer has to complete construction within tenure of three years on the same land.

**g) Bridge Loan:** Bridge Loans are designed for people who wish to sell the existing home and purchase another. The bridge loan helps finance the new home, until a buyer is found for the old home.

**h) Top up loans:** Enriching the investment in a house without having to dispose it off to fund various needs related to Higher Education, Purchase of Furniture and Business Requirements. The maximum term of the loan is 10 years. Top up loans can give after 1 to 2 years of the final disbursement of the existing loan or upon possession/completion of the existing financed property.

## OBJECTIVES OF THE STUDY

1. To examine the Housing Policy frame work in India.
2. To analyze the trends and progress in Housing Finance in India.
3. To study the operational performance of HDFC and SBI with regard to providing housing finance to individuals.
4. To assess the perceptions and problems of home loan takers in the State of Telangana

## HYPOTHESES OF THE STUDY

**H<sub>0</sub>1:** Whether the concerted efforts made by the government, in the form of policy frame work are helpful to the home loan borrowers.

**H<sub>0</sub>2:** Whether the selection of the housing financial institution is influenced by the operational factors.

**H<sub>0</sub>3:** Whether the home loans are taken by the borrowers of all income groups to avail the tax benefits

## METHODOLOGY OF THE STUDY

The major lenders of housing finance to individuals are considered for the study, namely HDFC and SBI, representing Housing Finance Company and Public Sector Bank respectively. Further, to study perceptions and problems of home loan borrowers, respondents have been selected randomly. That is respondents have been selected from the list of the borrowers/customers provided by the various branches of HDFC and SBI of Hyderabad, Rangareddy in the state of Telangana for the present study. The sample includes 300 respondents consisting 150 respondents from HDFC and 150 respondents from SBI, representing various occupational groups such as Businessmen, Employees, Professional and Self employed people. The care has been taken to include the respondents who are availing tax benefits through their home loans.

### SCOPE OF THE STUDY

In view of the objectives set for the research, the study examines the efforts made by the government in the form of policies are helpful to home loan borrowers. The study mainly concerned with the evaluation of operational performance of HDFC and SBI with regard to providing housing finance to individual borrowers and to examine the operational factors, which influenced them in the selection of the Housing Financial Institution.

### SOURCES OF THE DATA

For the purpose of the study, two sources of data have been collected.

#### PRIMARY DATA

A broad questionnaire was administered to the individual home loan borrowers of HDFC and SBI to know their perceptions i.e. factors influencing the selection of the HFI, opinion regarding the rate of interest on home loan, time taken in processing the loan, procedural formalities, security for getting the loan and difficulties faced by borrowers, in addition to this, personal interviews with the officers and branch managers of HDFC & SBI were held to fill the gaps in the data.

#### SECONDARY DATA

To explain the housing policy changes and to analyze the trends and progress in the housing finance in India, the secondary data were used. The was collected from the annual reports of the NHB, Drafts of National Housing and Habitat Policies, published by Ministry of Urban Development and Poverty Alleviation, Government of India, RBI Bulletins, Union Budgets of India, Ministry of Finance, Government of India and Survey Reports on Indian Housing Finance, published by Federation of Indian Chambers of Commerce and Industry etc.

#### LIMITATIONS OF THE STUDY

Housing Finance Sector growth is influenced by various factors such the prices of land, steel, cement, labor cost, savings, inflation rate, etc., the impact of these factors was not taken for the present study. The other limitations are:

- i. Only individual loan schemes offered by the FIs had been studied. Thus, the study neither covers the corporate loan schemes offered by the FIs nor the corporate customers.
- ii. Only operational performance of the HFIs under review was studied and the evaluation of the institutions had been done on the basis of their figures from the annual reports at all India level.
- iii. Since the data was obtained from more than one source, there may be discrepancies between one resource and another about the same variable. patency in lending practices.

## PROBLEMS OF THE HOME LOAN BORROWERS

1. The home loan application/sanction procedure is too lengthy.
2. HFIs are collecting high amount of processing, administration, conversion fee and other charges like prepayment penalty.
3. The change in the terms and conditions especially with regard to interest rate changes are not being communicated.
4. The reasons for rejecting the loan application are not being informed.
5. Delay in loan processing/sanctioning time especially with reference to SBI.
6. There is no transparency in lending practices.

## SUGGESTIONS

1. The loan application formalities should be simplified.
2. Most of the customers opined that institutions should not charge any processing, administration, conversion fee and other charges like prepayment penalty.
3. The customers also suggested that institutions should provide online approval of applications.
4. The change in the terms and conditions especially with regard to interest rate, the concerned customers should be informed.
5. HFIs should inform the reason for rejecting the loan application. This will help the applicants in rectifying their mistakes.
6. To win confidence of the customer sand bring transparency in all the transactions, it is necessary that their loan accounts should be made available on the Internet. HDFC is the way ahead in these criteria.
7. The customers of SBI suggested that the loan processing/sanctioning time should be reduced further.
8. All employees, especially the front officers of SBI should be familiar with the details of Housing Loan schemes of their banks.
9. All information regarding Housing Loans should be available on the websites of the HFIs in an interactive mode.
10. There should be uniformity in loan sanction procedure, interest rate structure among the various lenders.

## CONCLUSION

Thus, the Housing Finance in India faced a number of set-backs in decades, such as an unorganized market, development disparities and compartmentalized development approach. There was not even a concerted attempt to understand the housing problem let alone promote it. Reforms introduced in the sector during the 1990s, however, have overturned the situation to a great extent. The deigning of a shelter policy, the organization of the housing finance market, the introduction of fiscal incentives, increased public investment, legal reforms and others initiatives have brought about a number of changes in the housing finance. Home Loan providers should continue to address the huge potential in the industry and would maintain their focus on the individual loan segment. A trend that has emerged over the years in the housing finance is that the decreasing role of interest rates as a competitive tool. Service and product innovations are the key tools for success at present.

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