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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

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A COMPARATIVE ANALYSIS ON HOME LOANS OF PUBLIC & PRIVATE SECTOR BANKS IN INDIA

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ABSTRACT

Home is a dream of a person that shows the quantity of efforts, sacrifice luxuries and above all gathering funds little by little to afford one's dream. Home is one of the things that everyone one wants to own. Many banks providing home loans whether commercial banks or financial institutions to the people who want to have a home. The housing sector plays an important role in the economic development of the country. We selected this topic "A COMPARATIVE ANALYSIS ON HOME LOANS OF PUBLIC & PRIVATE SECTOR BANKS IN INDIA" because the Indian housing finance industry has grown by leaps and bound in a few years. There is a greater number of borrowers of home loans. So by this study we 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 HDFC Bank, PNB, Union Bank of India and ICICI 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. We 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 & 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.

KEYWORDS

home loans, banking.

INTRODUCTION

Home is a dream of a person that shows the quantity of efforts, sacrifice luxuries and above all gathering funds little by little to afford one's dream Home is one of the things that everyone one wants to own. Home is a shelter in person where he rests and feels comfortable. Many banks providing home loans whether commercial banks or financial institutions to the people who want to have a home. Many banks are providing home loans at cheapest rate to attract consumers towards them. The more customer friendly attitude of these banks, currently offer to consumers cheapest loan over homes. In view of acute housing shortage in the country, and keeping in mind the social – economic role of commercial banks in the present times, the RBI advised banks to encourage the flow of credit for housing finance. With the RBI reduces bank rate, the home loan market rates nosediving by 50 basis points. The HDFC Bank and Union Bank of India has become the first player in this sector to announce a housing loan for a 20 year period. No doubt it will enhance the end cost people to plan their house over longer duration now; it has been made easy for a person to buy that dream house which he dreamt of long ago. HDFC also provides with a Home Improvement Loan for internal and external repairs and other structural improvements like painting, waterproofing, plumbing and electrical works, tiling and flooring, grills and aluminum windows. HDFC finances up to 85% of the cost of renovation (100% for existing customers). The current status is that HDFC reduced home loan rates by 50 basis points for all its existing floating rate customers.

ADVANTAGES OF HOME LOANS

The various benefits of home loans arising to the customers are:-

- Attractive interest rates
- Help in owning a home
- No requirement of guarantor
- Door-Step Services
- Long loan period
- For accidental death insurance

DISADVANTAGES OF HOME LOANS

The main disadvantages of home loans are high lightened as below:

- Delays in processing
- Fluctuating interest rates
- High Cost
- Problems in disbursement

These are limitations or disadvantages of home loans. These limitations can be removed by providing good and prompt services to the customers.

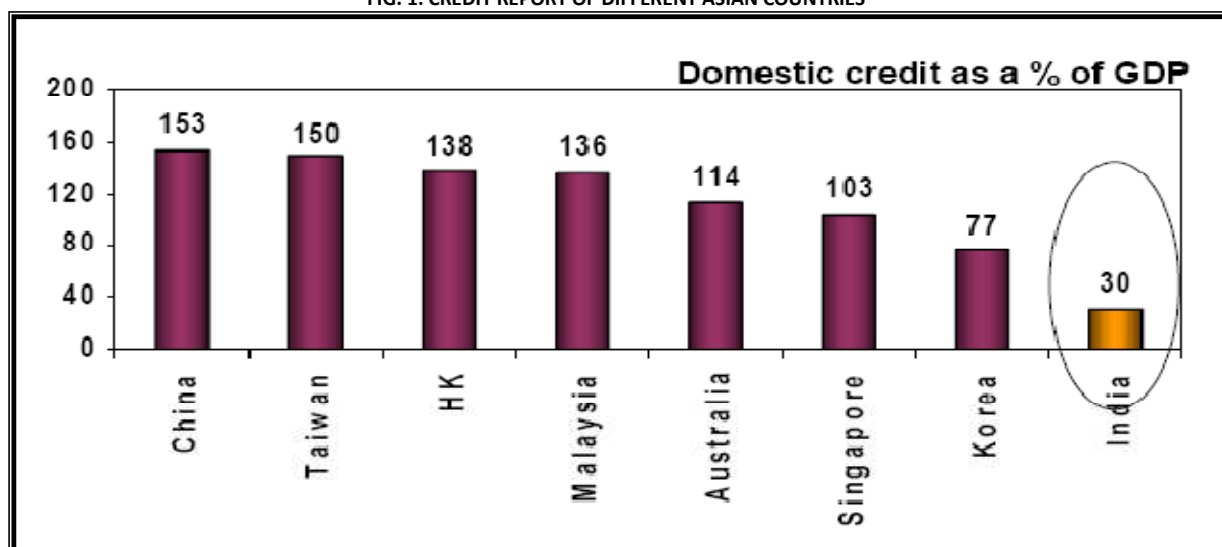
INDIAN MARKET FOR HOME LOANS IS MORE THAN ₹ 500,000 CRORE

Today, not only the metros are witnessing the housing crunch even the second tier cities like- Jaipur, Bhubneshwar, Lucknow, Trivendrum etc. are falling into the dearth of living space and wanting for more expansion.

- **INDIA REPORT**

Indian credit report in comparison to the other Asian countries is shown in the statistics below, which is among the lowest. It is Indian psyche that credit is termed bad, Indian are traditionally not inclined to take credit this reflects in the figures below:-

FIG. 1: CREDIT REPORT OF DIFFERENT ASIAN COUNTRIES



OBJECTIVES OF STUDY

The main objective of my study is to closely observe the different process being undertaken during the housing loans schemes provided by different Banks. The main objectives of my study are -

1. To evaluate & compare the House Loan schemes of PNB, UBI, HDFC, and ICICI.
2. To know about the customer's response regarding the housing loans.
3. To know about the satisfaction level of customers while dealing with the bank.
4. To study the problems faced by customers in obtaining the home loans.

RESEARCH METHODOLOGY OF THE STUDY

In the research methodology a sample size of 200 respondents has been taken through random sampling. We have collected both primary data as well as secondary data for our research purpose. A questionnaire has been used as a source of collecting primary data to check the satisfaction level of customers about home loan schemes and their providers. I have prepared the questionnaire according to the necessity of the data to be collected. In the secondary data, the annual reports of RBI, commercial banks & brochures of these banks have been studied. This study is based on the exploratory study as well descriptive study. Tables have been used for the better representation of data and percentages, averages and bar graphs have been used for analysis of data.

REVIEW OF LITERATURE

Several studies have been done by various researchers in the context of home loans. The details of reviews are below-

Berstein David (2009) examined in his study taken from 2001 to 2008 that in this period there is increasing use of home loans as compared to private mortgage insurance (PMI). He has divided his study into four sections. Vandell, Kerry D (2008) analyses the sharp rise and then suddenly drop down home prices from the period 1998- 2008. Changes in prices are for the reasons as such economic fundamentals, the problem was not subprime lending per se, but the Fed's dramatic reductions, then increases in interest rates during the early- mid-2000, the housing —boom was concentrated in those markets with significant supply-side restrictions, which tend to be more price-volatile; he problem was not in the excess supply of credit in aggregate, or the increase in subprime per se, but rather in the increased or reduced presence of certain other mortgage products. La courr, Micheal (2007) analysis in his study the factors affected the increase in the level of Annual percentage rates (APR) spread reporting during 2005 over 2004. The three main factors are (1) changes in lender business practices; (2) changes in the risk profile of borrowers; and (3) changes in the yield curve environment. The result shows that after controlling for the mix of loan types, credit risk factors, and the yield curve, there was no statistically significant increase in the reportable volume for loans originated directly by lenders during 2005, though indirect, wholesale originations did significantly increase. Finally, given a model of the factors affecting results for 2004-2005, we predict that 2006 results will continue to show an increase in the percentage of loans that are higher priced when final numbers are released in September 2007. La courMicheal (2006) examined the home purchase mortgage product preferences of LMI households. Objectives of his study were to analysis the factors that determined their choice of mortgage product. The role pricing and product substitution play in this segment of the market and do results vary when loans are originated through mortgage brokers? For this they have use the regression analysis and results that high interest risk reduces loan value. Dr. Rangarajan C. (2001) said that the financial system of India built a vast network of financial institutions and markets over times and the sector is dominated by banking sector which accounts for about two-third of the assets of organized financial sector. Haavio, Kauppi (2000) stated that countries where a large proportion of the population lives in owner — occupied housing is experiencing higher unemployment rates. Than countries where the majority of people live in private rental housing, which might suggest that rental housing enhances labour mobility. In this paper, they develop a simple inter temporal two region model that allowus to compare owner occupied housing markets to rental markets and to analyze how these alternative arrangements allocate people in space and time. Announced that it will offer loans for Rs. 2-10 lakhat 12.5 percent the lowest rate offered by any housing finance provider; big brother SBI has taken the rate war in the home loans category to new heights. Narasimham Committee (1991) points out that although the banking system in our country has made rapid progress during the last two decades, there is decline in productivity and efficiency and erosion of profitability. The committee strongly makes indications of liberlising, deregulating economy to make the Indian banking system more competitive and efficient. Ojha (1987) in his paper "modern international caparison of productivity and Profitabilityof public sector banks of India" making Comparison on the basis of per employee indicators and taking examples of state bank group and Punjab National bank noted that Indian banks are the lowest in all accounts. However such international comparison will not be fair for numbers of reasons. Godse (1983) in his essay, "looking a fresh at banking productivity" observe that productivity aspect is only at the Conceptualization stage in the banking industry. He suggested improvement in productivity and procedures, costing of operations and capital expenditure etc. Fanning (1982), while examining bank productivity of British banks observed that although the productivity of the UK clearing banks is improving, they are still heavily over manned as compared with similar banks elsewhere. Kulkarni (1979) in his study "Development responsibility and profitability of banks" stated that while considering bank costs and profits, social benefits arising out of it cannot be ignored. He suggested that while meeting social responsibility banks should try to make developmental business as successful as possible. Varde and Singh (1979) in a study "profitability of commercial banks" over 15 years gave consideration to two types of factors that affects interest rates levels i.e. internal factors (including operational and managerial efficiency of individual basis). Banking Commission (1972) reviewed bank operating methods and procedures and made recommendations for improving and modernizing these, particularly relating to customer services, credit procedure and internal control systems. It observed that present methods of working out branch profitability are not appropriate and an integrated costing and financial reporting system is needed.

COMPARATIVE ANALYSIS OF HOME LOAN SCHEMES OFFERED BY DIFFERENT BANKS

Basis	PNB	UBI	HDFC	ICICI
Eligibility	Individual	21 year age, may be employed or self employed	Individual	Individual
Loan Amount	For Repair- 20 Lakhs	4 times of annual gross income of 5 times of annual net income	No limit	48 times of salary or 50 Lakhs (which ever is less)
Rate of Interest	Under fixed option up to 5 year-7.25% 6 to 10 year-10.25%, 11 to 20 years 10.5% years 21 to 25 years-11%	Fixed option up to 5 year-7.75%, 6 to 10 year-8.75% above 10 year-9%	Fixed option Up to 5 year-9.25% 6 year to 10 year-9.5% 11 to 20 years-10.5%	Fixed option up to 5 years -9.75%, 5 years to 10 years 10.25%, 10 years to 15 years 10.75% above 15 years -10.75%
Security	Equitable Mortgage Guarantee	Equitable Mortgage Guarantee	Equitable Mortgage Guarantee	Equitable Mortgage Guarantee
Repayment Period	Maximum 25 years	Maximum 20 years	Maximum 20 years	Maximum 20 years
Margin	40% house 20% repair	15% for purchase	15%	15%
Processing Charge	Up to 25000-zero 25000 to 2 lakhs 1.5% above 2 Lakhs -2%	0.50% of loan amount	1.8 of loan amount	1% of loan amount

ANALYSIS & INTERPRETATION

The analysis is based on the responses given by customers through questionnaires.

DEMOGRAPHIC PROFILE OF THE RESPONDENTS

Age Group			
Sr. No.	Factors	No. of Respondents	Percentage of respondents
	18-25 Years	94	47%
	26-35 Years	50	25%
	36-49 Years	34	17%
	50-60 Years	18	9%
	More than 60	4	2%
Total		200	100%
Gender			
	Male	140	70%
	Female	60	30%
Total		200	100%
Marital status			
	Married	176	88%
	Unmarried	24	12%
Total		200	100%
Education			
	Under graduation	50	25%
	Graduation	80	40%
	Post graduation	70	35%
Total		200	100%
Occupation			
	Housewife	6	3%
	Salaried	46	23%
	Professionals	100	50%
	Own Business	48	24%
Total		200	100%
Annual Household Income			
	Less than 2 lakhs	98	49%
	2-5 lakhs	62	31%
	5-8 lakhs	30	15%
	More than 8 lakhs	10	5%
Total		200	100%

INTERPRETATION OF DEMOGRAPHIC PROFILE

Demographics of respondent's shows that the customer base of home loan industry is married male dominating. Data also shows that loan requirement is inversely proportional to the level of income of customers.

Satisfaction level of Respondents with the behavior of employees

Null hypothesis: There is no significance difference between public sector bank and private sector bank related to politeness of bank employees

Group Statistics				
	N	Mean	Std. Deviation	Std. Error Mean
Private Banks	90	2.68	.885	.093
Public Banks	90	2.31	.932	.098

Independent Samples Test									
	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	4.149	.043	2.707	178	.007	.367	.135	.099	.634

CRITICAL TEST VALUE

For 5% significance level and two tailed test the critical value is 1.96.

INTERPRETATION

Since the calculated value is greater than the critical value (2.707 > 1.96), we reject the null hypothesis. There is significance difference between public sector bank and private sector bank related to politeness of bank employees.

Null hypothesis: There is no significance difference between public sector bank and private sector bank related to promptness of bank employees

Group Statistics				
	N	Mean	Std. Deviation	Std. Error Mean
Private Banks	90	3.83	.738	.078
Public Banks	90	3.57	.808	.085

Independent Samples Test									
	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	7.302	.008	2.312	178	.022	.267	.115	.039	.494

CRITICAL TEST VALUE

For 5% significance level and two tailed test the critical value is 1.96.

INTERPRETATION

Since the calculated value is greater than the critical value (2.312 > 1.96), we reject the null hypothesis. There is significance difference between public sector bank and private sector bank related to promptness of bank employees.

Null hypothesis: There is no significance difference between public sector banks and private sector bank related overall satisfaction of bank customers

OVERALL SATISFACTION LEVEL OF THE RESPONDENTS

Group Statistics				
	N	Mean	Std. Deviation	Std. Error Mean
Public Banks	77	2.96	.979	.112
Private Banks	123	3.50	1.097	.099

Independent Samples Test									
	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	9.664	.002	3.495	198	.001	-.535	.153	-.837	-.233

CRITICAL TEST VALUE

For 5% significance level and two tailed test the critical value is 1.96.

INTERPRETATION

Since the calculated value is greater than the critical value (3.495 > 1.96), we reject the null hypothesis. There is a significant difference between public sector banks and private sector bank related overall satisfaction of bank customers.

As the satisfaction of customers is concerned, most of the customers are going to private sector banks fulfill their home loan requirements because of their better services and better relationship marketing. The same thing is clearly visible in the above data.

FINDINGS

1. Some customers' dose not has proper knowledge about different home loan schemes.
2. Most of the people have lack of money in fulfilling their dreams and a few of them reluctant to pay cash in one go and wanted to pay their home loan slowly in installments.
3. Many people are attracted for the less rate of interest of private sector banks.
4. The majority of the respondents wants to take a loan for the construction of the new house.
5. Maximum no. of personrelies on the private sector banks. So these banks should improve their services in future.
6. The majority of the respondents wants to give land papers as the securities against the home loan.
7. Many people prefer Hindi language when dealing with the bank.
8. Sometimes behavior of public sector bank employees are not cooperative
9. Mostly professional go for the home loan and they want to take home loan from 1 lakh to 5 lakhs.
10. The public sector banks charge high processing cost for home loan's sanctioning. They are forced to pay serious charges at various stages to fulfill the requirements

Above finding shows that the private sector banks are better than public sector on the basis of customer response and the whole research was carried out in a systematic way to reach at exact results. The entire research and findings were based on the objectives. However, the study had some limitations also. But proper attention was made to carry out research in proper way and to make accurate findings.

RECOMMENDATIONS AND SUGGESTIONS

- **Suggestions from customers**

The following recommendations have been provided by the customers:-

1. Public sector banks should provide different housing loan schemes with attractive features like rate of interest, margin etc. for attracting more and more people in rural area.
2. Housing schemes and process of passing loan should be easy to make the people understand.
3. A counter facility should be provided in all banks to help the customers.
4. The process of loan repayment should be easy to attract more customers by public sector bank..
5. The Loan passing process should be quicker by public sector bank like a private sector bank.
6. There should not be any file processing charges in the banks.
7. Many booklets and attractive advertisement should be provided to the customer for awareness about different housing loan scheme public sector banks like private sector banks.
8. To respect the customers by giving them individual attention and also help them to know the bank better by public sector bank.
9. Loans should be made easily available and there should be fewer formalities while providing loans.

- **Suggestions by researcher**

On the basis of the feedback received from the respondents the following recommendations are made by the public sector banks:-

1. More personal attention should be given to the customers and working efficiency should be increased.
2. The formalities and paperwork should be reduced while providing the loans to the customers.
3. The services provided by banks need to be automated.
4. The bank should improve their customer service.
5. The behavior of the staff of the bank toward the customer should be more personalized.
6. The banks need to improve on the customer satisfaction level due to stiff competition among the banks.

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