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## LENDING PRACTICES OF PRIVATE AND PUBLIC BANKS OF TAKHATPUR: A COMPARATIVE STUDY

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## ABSTRACT

Banking sector is backbone of economy in the country. The finance collected from this sector works in economy as blood works in the body. The banking sector is characterized by various services such as account facility, ATM facility, loan facility, mutual fund facility and many other financial services. These services help a citizen to facilitate his/her work life and private life in many ways. In the absence of banking business, savings would sit idle in our homes, the entrepreneurs would not be in a position to raise the money, ordinary people dreaming for a new car or house would not be able to purchase cars or houses. But the present study is focusing on the domestic banks and tries to study the lending practices of domestic banks to present the picture before the masses by comparing the public and private sector banks so that the bankers, customers and government can see the insight of domestic banks to make the relation with these banks in future.

## KEYWORDS

banking business, domestic banks, lending practices.

## 1. INTRODUCTION

In Takhatpur few public and few private sector banks were operating since conceptualization of this sector but now they have to face severe competition from the foreign banks to sustain in the market and consequently many amendments were made by these domestic players to attract customers. For this purpose one private bank i.e. HDFC and one public sector bank i.e. SBI have been taken to study the lending practices on the basis of ratio analysis. As SBI is one of the leading public sector banks in India and HDFC is the second largest and leading bank of private sector in India.

**State Bank of India (SBI)** is an Indian multinational, public sector banking and financial services company. It is a government-owned corporation with its headquarters in Mumbai, Maharashtra. As of 2016-17, it had assets of 30.72 trillion (US\$460 billion) and more than 14,000 branches, including 191 foreign offices spread across 36 countries, making it the largest banking and financial services company in India by assets. The company is ranked 232nd on the *Fortune Global 500* list of the world's biggest corporations as of 2016.

The bank traces its ancestry to British India, through the Imperial Bank of India, to the founding, in 1806, of the Bank of Calcutta, making it the oldest commercial bank in the Indian subcontinent. Bank of Madras merged into the other two "presidency banks" in British India, Bank of Calcutta and Bank of Bombay, to form the Imperial Bank of India, which in turn became the State Bank of India in 1955. Government of India owned the Imperial Bank of India in 1955, with Reserve Bank of India (India's Central Bank) taking a 60% stake, and renamed it the State Bank of India. In 2008, the government took over the stake held by the Reserve Bank of India.

State Bank of India is a banking behemoth and has 20% market share in deposits and loans among Indian commercial banks.

**HDFC Bank (Housing Development Finance Corporation)** is an Indian banking and financial services company headquartered in Mumbai, Maharashtra. It has 90,421 employees and has a presence in Bahrain, Hong Kong and Dubai. HDFC Bank is India's second-largest private sector lender by assets. It is the largest bank in India by market capitalization as of February 2016. It was ranked 69th in 2016 BrandZ™ Top 100 Most Valuable Global Brands

In 1994 HDFC Bank was incorporated, with its registered office in Mumbai, India. Its first corporate office and a full service branch at Sandoz House, Worli was inaugurated by the then Union Finance Minister, Manmohan Singh.

As of December 31, 2016, the Bank's distribution network was at 4,555 branches and 12,087 ATMs across 2,597 cities / towns.

## PRODUCTS AND SERVICES

Market leader in e-commerce, HDFC Bank provides a series of digital offerings like - 10 second personal loan, Chillr, PayZapp, SME Bank, Watch Banking, 30-Minute Auto Loan, 15-minute Two-Wheeler Loan, e-payment gateways, Digital Wallet, etc.

HDFC Bank provides a number of products and services which includes Wholesale banking, Retail banking, Treasury, Auto (car) Loans, Two Wheeler Loans, Personal loans, Loan Against Property and Credit Cards.

The latest entry in the league is 'Project AI', under which HDFC Bank, over the next few weeks, would deploy robots at select bank branches. These robots will offer options such as cash withdrawal or deposit, forex, fixed deposits and demat services displaying on the screen to persons coming into the branch.

## LENDING PRACTICES

In finance, a **loan** is the lending of money from one individual, organization or entity to another individual, organization or entity. A loan is a debt provided by an entity (organization or individual) to another entity at an interest rate, and evidenced by a promissory note which specifies, among other things, the principal amount of money borrowed, the interest rate the lender is charging, and date of repayment. A loan entails the reallocation of the subject asset(s) for a period of time, between the lender and the borrower.

In a loan, the borrower initially receives or *borrow*s an amount of money, called the *principal*, from the lender, and is obligated to *pay back* or *repay* an equal amount of money to the lender at a later time.

The loan is generally provided at a cost, referred to as interest on the debt, which provides an incentive for the lender to engage in the loan. In a legal loan, each of these obligations and restrictions is enforced by contract, which can also place the borrower under additional restrictions known as loan covenants. Although this article focuses on monetary loans, in practice any material object might be lent.

Acting as a provider of loans is one of the principal tasks for financial institutions such as banks and credit card companies. For other institutions, issuing of debt contracts such as bonds is a typical source of funding.

## 2. OBJECTIVES OF THE STUDY

1. To know lending practices of SBI bank and HDFC bank in takhatpur town
2. To measure and compare the efficiency of SBI and HDFC bank in tkp
3. To know different type of loan preferred by different category of customer
4. To know the satisfaction level of customer from lending practices

5. To suggest appropriate measure to improve loan falitieces of both bank in tkp
6. To find the percentage of debtors turns in to NPA (Bad debts)

### 3. REVIEW OF THE LITERATURE

The banking system in India comprises of the Reserve Bank of India, Commercial banks and cooperative banks and credit societies. The commercial banks are the premier institutional structure of the banking system. The principal function of these institutions is to satisfy simultaneously the portfolio preferences of the borrowers on one side and the lenders on the other. They mobilise resources from the savers in the form of deposits and extend credit facilities to borrowers in the form of loans, advances and securities. Loans and advances provided by these institutions can be categorised into short-term funds and long-term funds. The latter are advanced for purchase of plant and machinery while the former are provided for purchase of raw materials, stores, spare parts and the like. However following the traditional British banking practice, commercial banks provide more short term funds to the investors in industry and trade than long term loans. The pattern of credit disbursement has undergone substantial changes since 1950.

Commercial banks extended credit to commerce and trade to a larger extent than to manufacturing industry until 1958. Since the commencement of the second five Year Plan, which laid emphasis on rapid industrialisation, the pattern of credit flow took a new turn in favour of medium and large industry. As a result, the share of industry, in public and private sectors in total bank credit increased from 34.8% to 67.5% during the period 1954 to 1968. Since nationalisation of 14 major commercial banks in July 1969, the Government of India assigned new priorities to commercial banks with regard to the flow of credit to hitherto neglected sectors, called "priority sectors." The emphasis thus shifted from industry to the priority sectors. Further the supply of credit was controlled through statutory regulations and monetary regulations.

On the other hand the demand for bank credit has also undergone substantial increase. Factors such as, large growth in the number of industrial units, diversification of existing units, increase in industrial and agricultural production, increasing needs of short and long-term funds to maintain the increased levels of production, pushed up the demand for bank credit.

Gupta<sup>1</sup> and Ambegeokar observed that the use of funds from banks by the private corporate sector had exceeded its inventory formation. Gupta, has argued that a small portion of such finance should have gone to meet fixed investment. Further, he found the growth rate of physical assets to be more directly and closely related to security issues than bank credit. Hence, he argued that the fast growing firms relied heavily on security issues than the use of bank credit. Arnbegeokar found that the rate of rise in bank credit exceeded that of inventory, sales and output. Further he observed that its dependence on banks for working capital had increased, accompanied by a decline in reliance on other financial institutions.

Shetty assessed the dimensional changes in credit deployment during the first five years of nationalisation in relation to changes in output and prices. The rationale for his analysis was the fact that, in any accepted model of demand for money, one common variable is the gross national product or some other variant of it in real terms. Consequently, he hypothesised that credit for any sector or industry over a period has to have some relationship with its performance in real terms, particularly output. He observed a declining trend in the credit extended by banks to industries since nationalisation, though it was higher than other sectors. On finding that the share of manufacturing sector in bank credit is higher than its share in Net Domestic Product (NDP) he concludes that increase in bank credit has occurred far in excess of increase in output during the years 1968-1973.

### 4. RESEARCH METHODOLOGY

#### 4.1 TYPE OF RESEARCH

Descriptive research is used in this study in order to identify the lending practices of bank and determining customer's level of satisfaction.

#### 4.2 COLLECTION OF DATA

##### 4.2.1 PRIMARY DATA

- a. Observation Method
- b. Structured Questionnaire

##### 4.2.2 SECONDARY DATA

- a. Manual of instructions on loans and advances
- b. Books
- c. Articles and Research Papers
- d. Internet

#### 4.3 SAMPLING UNIT

The Study population includes the borrowers of bank and Sampling Unit for Study is Individual borrowers.

**SAMPLING SIZE:** 50 - 50 Respondents of SBI bank and HDFC bank

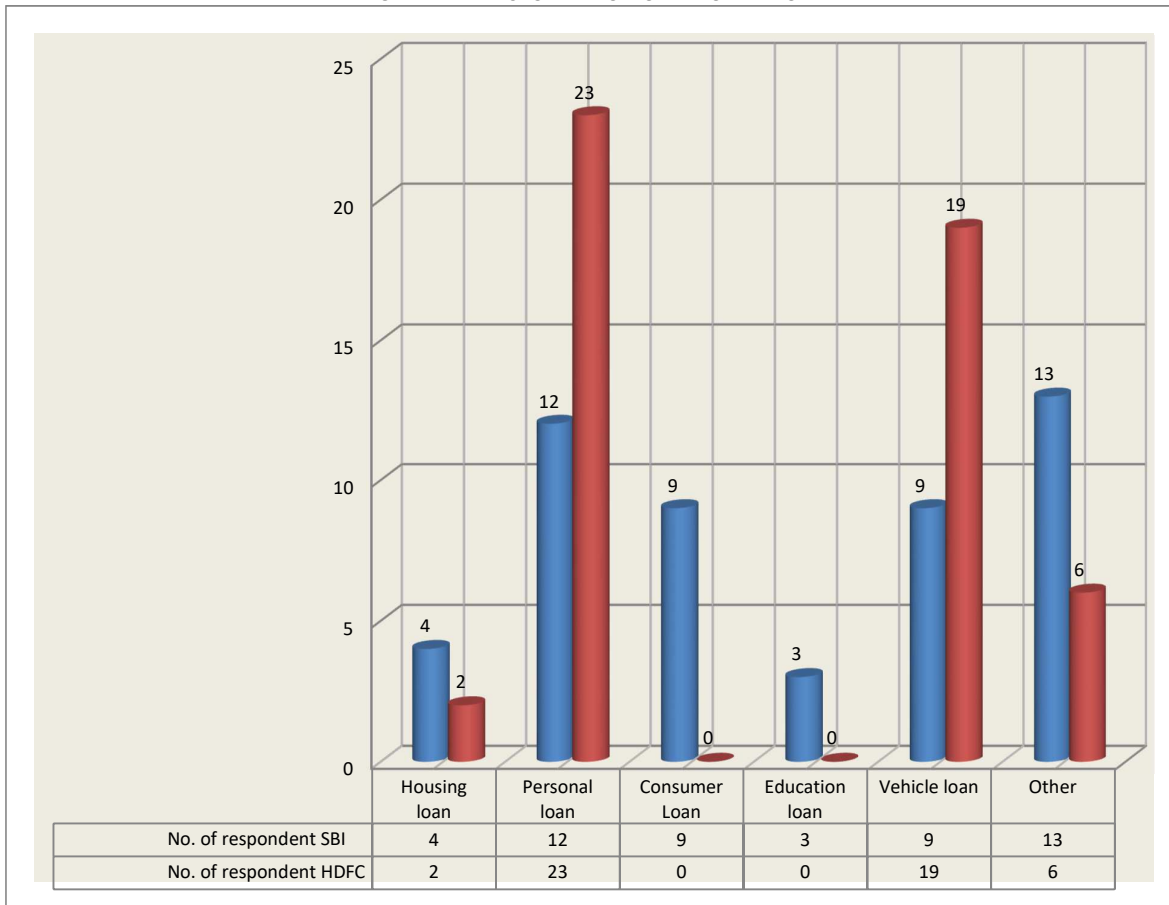
**RESEARCH INSTRUMENT:** The method used is questionnaire.

### 5. DATA ANALYSIS AND INTERPRETATION

TABLE 1: PREFERENCE OF THE CUSTOMER FOR THE LOAN

Kind of loan	No. of respondent	
	SBI	HDFC
Housing loan	4	2
Personal loan	12	23
Consuming loan	9	0
Education loan	3	0
Vehicle loan	9	19
Other	13	6

FIG. 1: PREFERENCE OF THE BORROWER FOR THE LOAN



**INTERPRETATION**

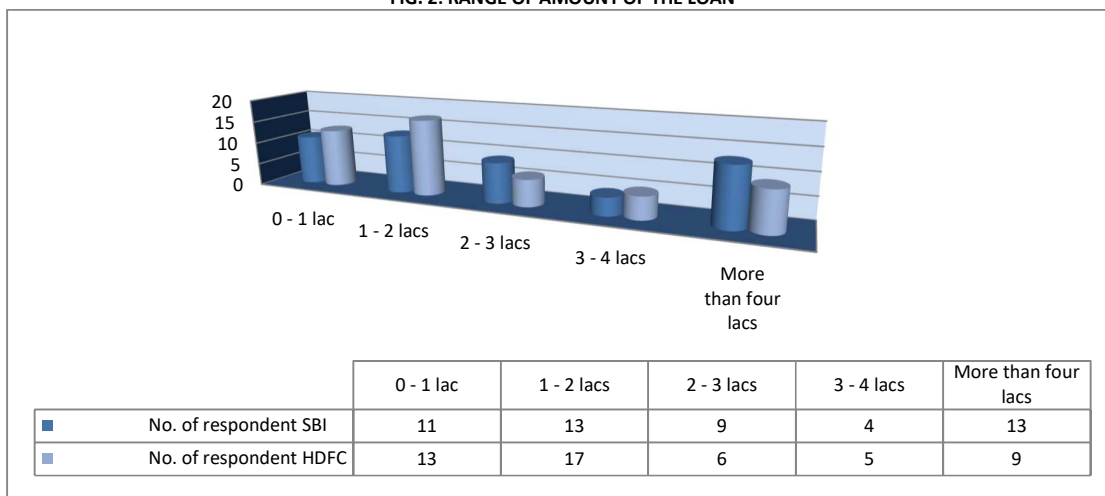
In Takhatpur town for SBI bank 8% of population of area borrowing for housing loan, 24% of population of area borrowing for personal loan, 18% of population of area borrowing for consuming loan, 6% of population of area borrowing for education loan, 18% of population of area borrowing for vehicle loan, 13% of population of area borrowing for others loan.

In Thakhatpur town for HDFC bank 4% of population of area borrowing for housing loan, 46% of population of area borrowing for personal loan, 0% of population of area borrowing for consuming loan and education loan, 38% of population of area borrowing for vehicle loan, 12% of population of area borrowing for others loan

TABLE 2: RANGE OF THE AMOUNT OF THE LOAN

Range of amount	No. of respondent	
	SBI	HDFC
Less than one lac	11	13
1 – 2 lacs	13	17
2 – 3 lacs	9	6
3 – 4 lacs	4	5
More than four lacs	13	9

FIG. 2: RANGE OF AMOUNT OF THE LOAN



**INTERPRETATION**

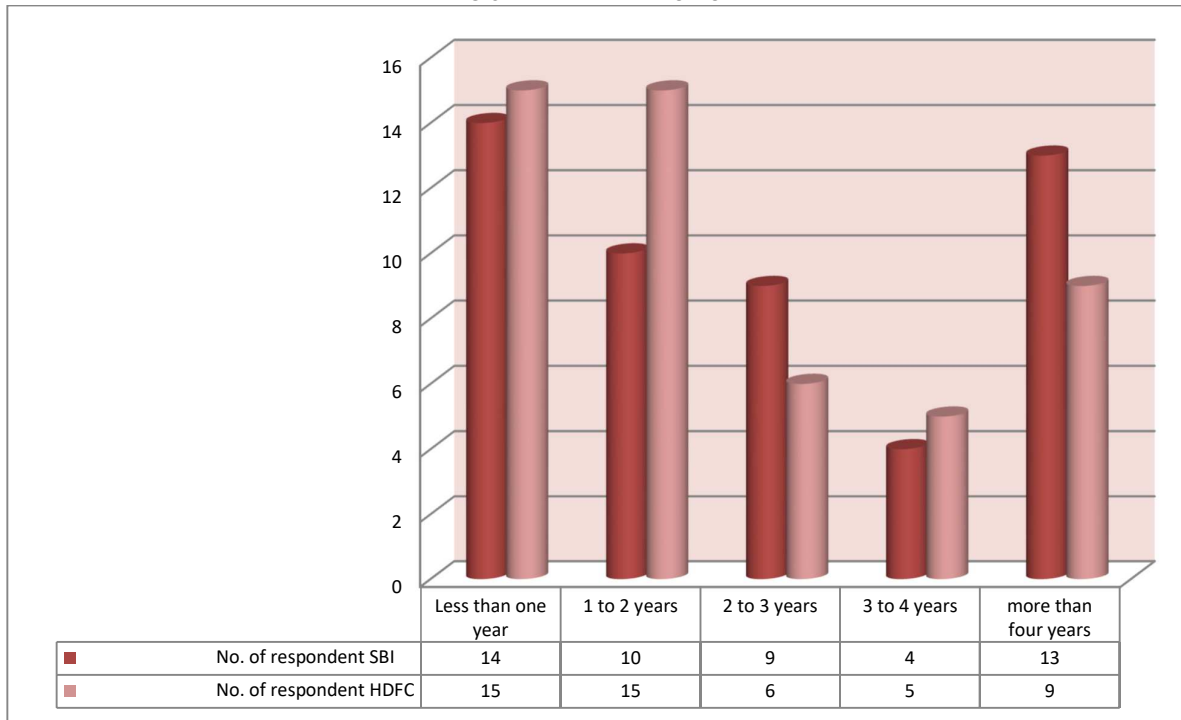
Present Study reveals that for SBI bank 22 % people prefer loan less than 100,000, 26 % respondents prefer 1 lac to 2 lacs, 18 % respondents prefer 2 lacs to 3 lacs, 8 % respondents prefer 3 lacs to 4 lacs, 26 % respondents prefer more than 4 lacs.

Present Study reveals that for HDFC bank 26 % people prefer loan less than 100,000, 34 % respondents prefer 1 lac to 2 lacs, 12 % respondents prefer 2 lacs to 3 lacs, 10 % respondents prefer 3 lacs to 4 lacs, 18 % respondents prefer more than 4 lacs.

**TABLE 3: PREFERABLE TERM OF LOAN**

Term of loan	No. of respondent	
	SBI	HDFC
Less than one year	14	15
1 – 2 years	10	15
2 – 3 years	9	6
3 – 4 years	4	5
More than four years	13	9

**FIG. 3: PREFERABLE TERM OF LOAN**



**INTERPRETATION**

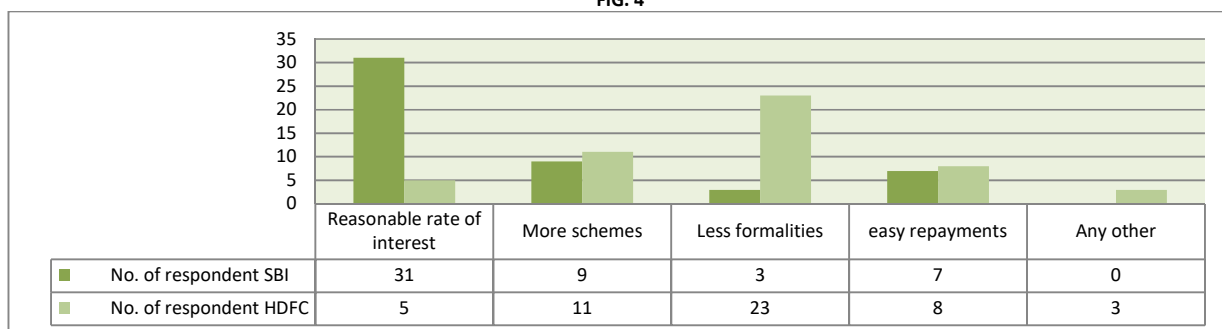
Present Study reveals that for SBI bank 28 % people prefer loan less than 1 year, 20 % respondents prefer 1 to 2 years, 18 % respondents prefer 2 to 3 years, 8 % respondents prefer 3 to 4 years, 26 % respondents prefer more than 4 years.

Present Study reveals that for HDFC bank 30 % people prefer loan less than 1 year, 30% respondents prefer 1 to 2 years, 12 % respondents prefer 2 to 3 years, 10 % respondents prefer 3 to 4 years, 18 % respondents prefer more than 4 years.

**TABLE 4: WHAT PROMPTED THE BORROWER TO TAKE LOAN FROM BANK**

Reason for taking loan	No. of respondents	
	SBI	HDFC
Reasonable rate of interest	31	5
More schemes	9	11
Less formalities	3	23
Easy repayments	7	8
other	0	3

**FIG. 4**



**INTERPRETATION**

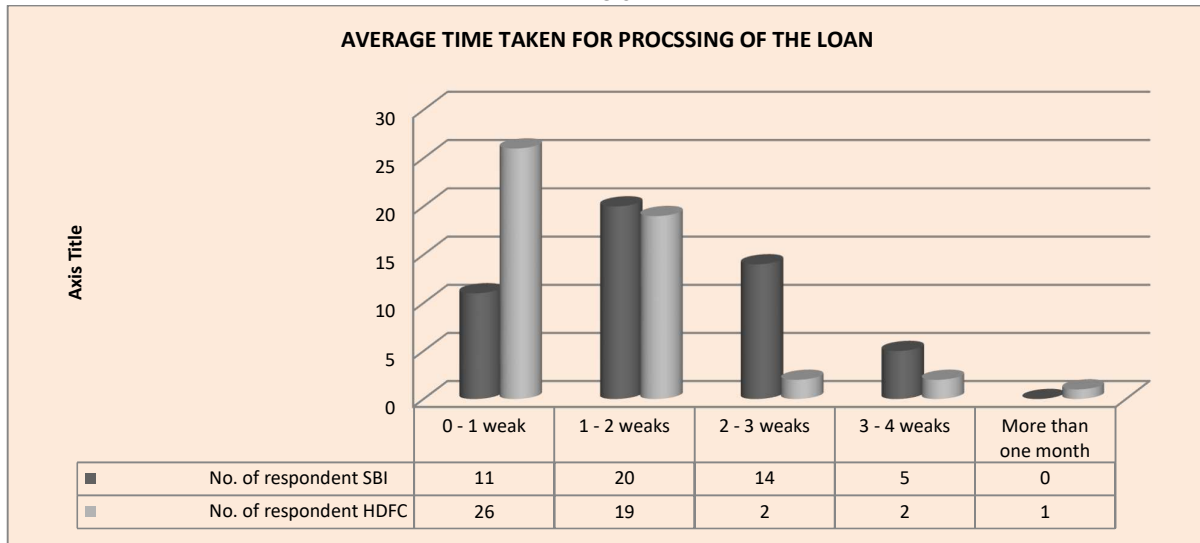
Study reveals for SBI 14 % take loan because banks provide easy payment, 6% take loans because of less formalities and 62 % respondents take loan because of reasonable rate of interest, 18 % respondents take loan because of more schemes.

Study reveals for HDFC 16 % take loan because banks provide easy payment, 46% take loans because of less formalities and 10 % respondents take loan because of reasonable rate of interest, 22 % respondents take loan because of more scheme, 6 % respondents take loan because of any other scheme.

**TABLE 5: AVERAGE TIME TAKEN FOR THE PROCESSING OF THE LOAN**

Average time for processing of loan	No. of respondent	
	SBI	HDFC
Less than one weak	11	26
1 – 2 weeks	20	19
2 – 3 weeks	14	2
3 -4 weeks	5	2
More than one month	0	1

**FIG. 5**



**INTERPRETATION**

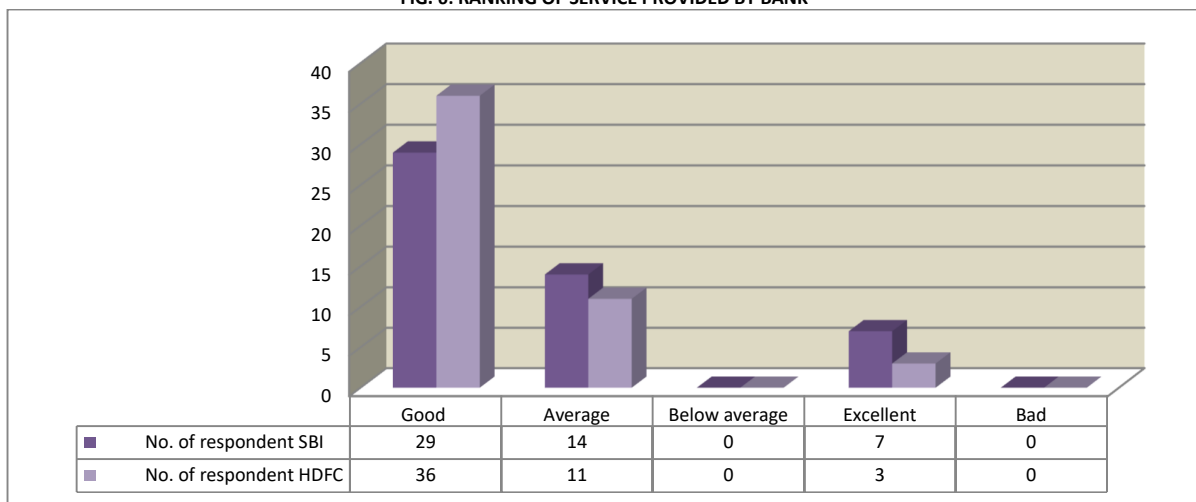
Study reveals for SBI BANK 22% respondents says that average time taken for processing of the loan is less than one weak, 40% says that it takes 1 – 2 weeks and 28 % says that it takes 2 – 3 weeks, 10% says that it takes 3 – 4 weeks.

Study reveals for HDFC BANK 52% respondents says that average time taken for processing of the loan is less than one weak, 38% says that it takes 1 – 2 weeks and 4 % says that it takes 2 – 3 weeks, 4% says that it takes 3 – 4 weeks, and 2% says that it takes more than one month.

**TABLE 6: RANKING OF THE SERVICE PROVIDED BY BORROWER**

Ranking of the service	No. of respondents	
	SBI	HDFC
Good	29	36
Average	14	11
Below average	0	0
Excellent	7	3
bad	0	0

**FIG. 6: RANKING OF SERVICE PROVIDED BY BANK**



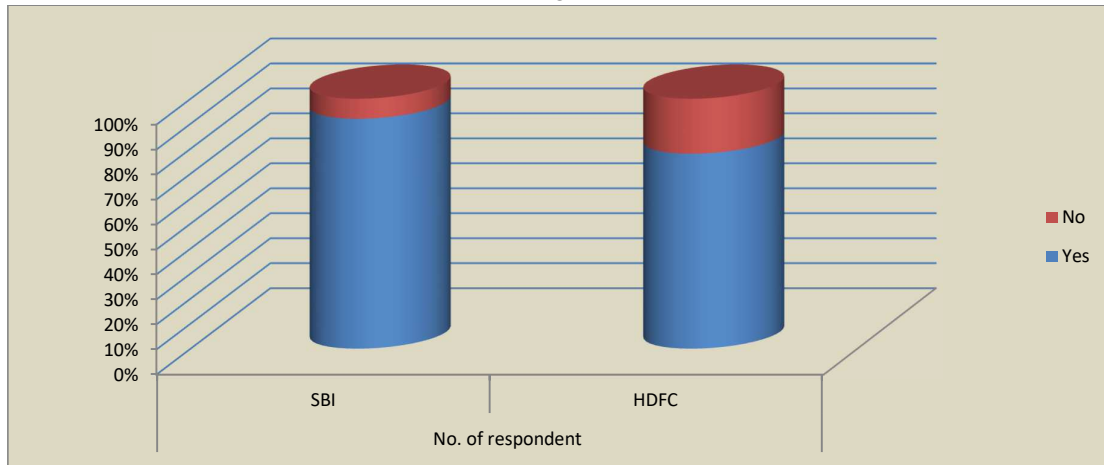
**INTERPRETATION**

Study shows for SBI 58% of the respondent says that facility provided by the bank are GOOD, 28% say that its average and 14% says that it's excellent. Study shows for HDFC 72% of the respondent says that facility provided by the bank are GOOD, 22% say that its average and 6% says that it is excellent

**TABLE 7: BORROWER SATISFIED WITH THE RATE OF INTEREST AND EMI**

Borrower satisfied	No. of respondent	
	SBI	HDFC
Yes	46	39
No	4	11

**FIG. 7**



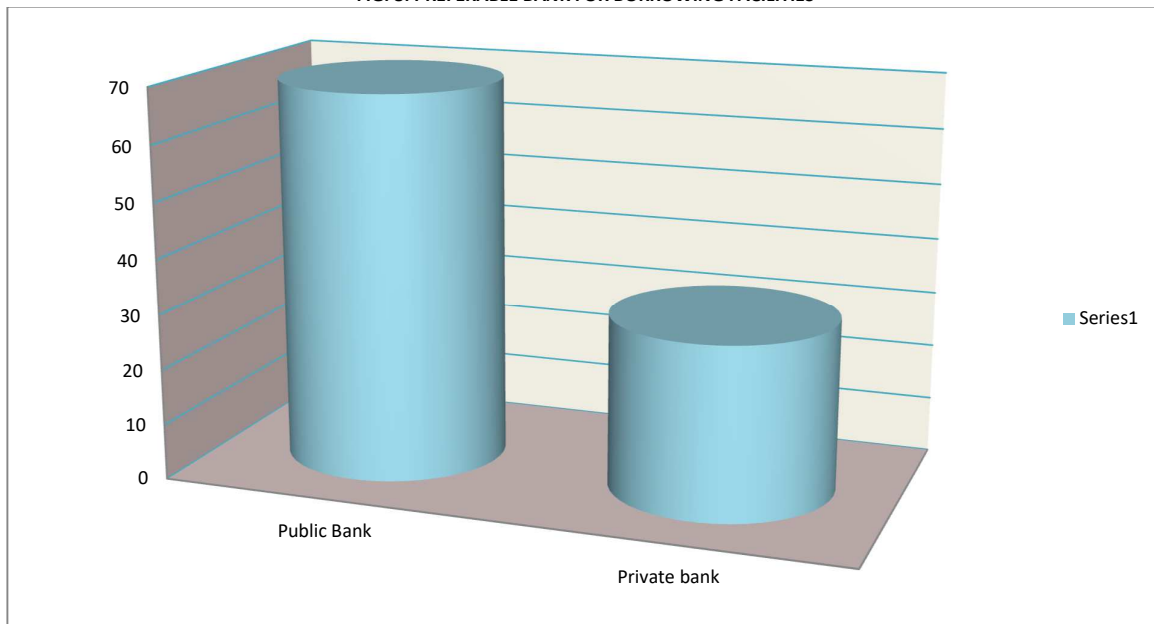
**INTERPRETATION**

Study reveals that for SBI BANK 92% are satisfied with the amount and period of installment, 8 % are not satisfied. Study reveals that for HDFC BANK 78% are satisfied with the amount and period of installment, 22% are not satisfied.

**TABLE 8: PREFERABLE BANK FOR BORROWING FACILITIES**

Preferable bank	No. of respondents	Percentage
Public bank	69	69%
Private bank	31	31%

**FIG. 8: PREFERABLE BANK FOR BORROWING FACILITIES**



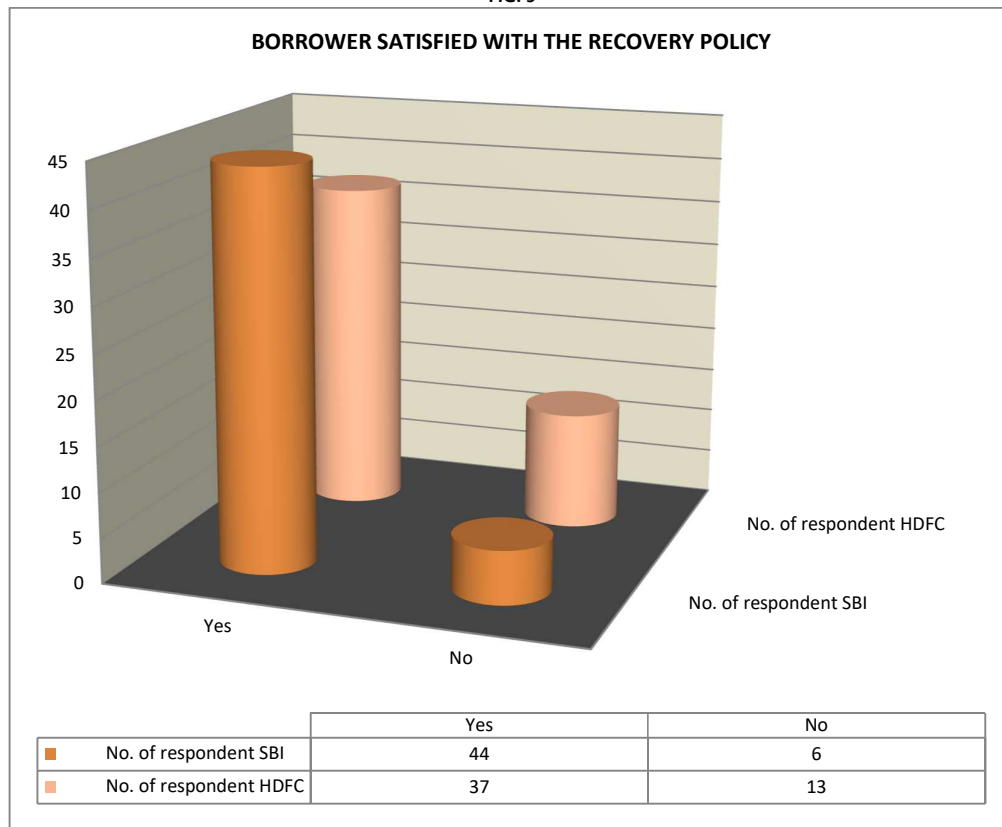
**INTERPRETATION**

Study shows that 69 % of the respondents will prefer loans from PUBLIC BANK, 31% from the PRIVATE BANK

**TABLE 9: BORROWER SATISFIED WITH THE RECOVERY POLICY**

Borrower satisfied	No. of respondent	
	SBI	HDFC
Yes	44	37
No	6	13

FIG. 9



**INTERPRETATION**

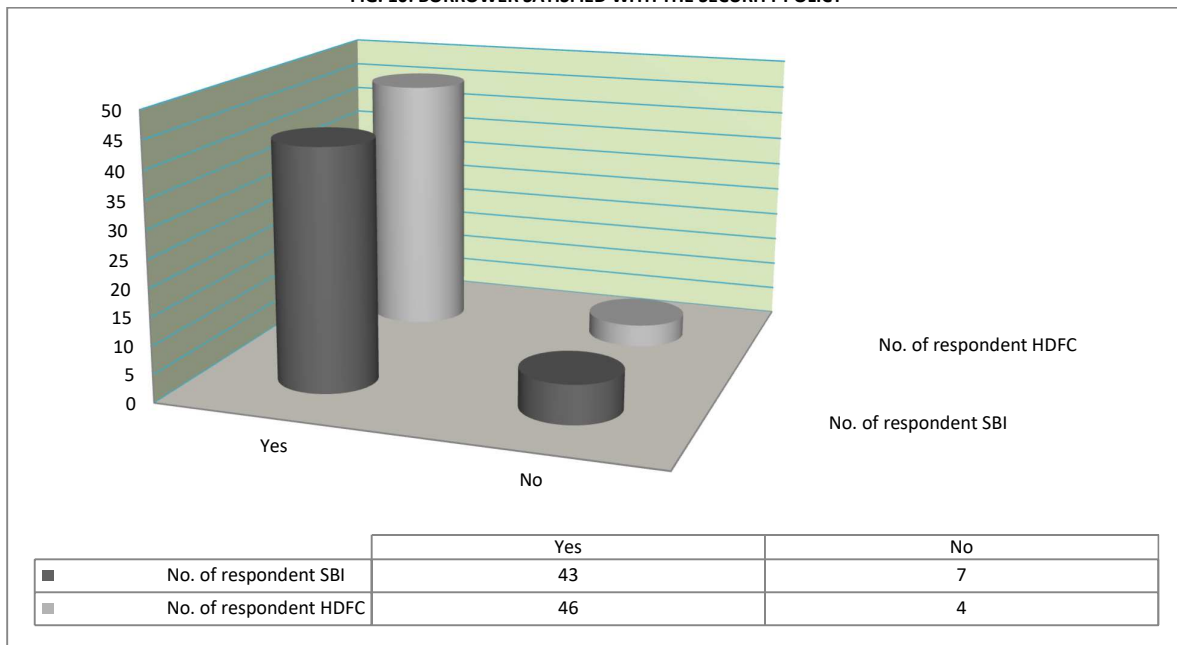
Study reveals that for SBI BANK 88% are satisfied with the recovery policy, 12% are not satisfied.

Study reveals that for HDFC BANK 74% are satisfied with the recovery policy, 26% are not satisfied.

**TABLE 10: BORROWER SATISFIED WITH THE SECURITY POLICY FOR LOAN**

Borrower satisfied	No. of respondent	
	SBI	HDFC
Yes	43	46
No	7	4

**FIG. 10: BORROWER SATISFIED WITH THE SECURITY POLICY**



**INTERPRETATION**

Study reveals that for SBI BANK 86% are satisfied with the security policy, 14% are not satisfied.

Study reveals that for HDFC BANK 92% are satisfied with the security policy, 8% are not satisfied.

**6. FACT AND FINDING**

1. 69% borrowers are prefer the SBI bank when taking loan and only 31% borrowers prefer HDFC bank.
2. Family member are creating more effect on decisions regarding loan.
3. Interest rate is main factor consider by borrowers when using taking loan.
4. Most of the borrower prefer the repayment of loan in higher duration.
5. Most of the borrower consider the policy of bank regarding loan.
6. 58% borrower's give the higher rating to SBI bank.
7. In HDFC bank 72% borrowers give the higher rating to HDFC bank.
8. More governments employees are prefer the SBI bank.
9. Similarly self employed and business men's are prefer the HDFC bank.
10. Low income class people face difficulty to taking loan.

**7. LIMITATIONS**

1. The study is based on the data of past two years only.
2. The data for study mainly based on two banks.
3. As majority of the borrowers are employees of the HDFC bank, they might be biased in giving the information
4. The time period of the research is limit.
5. The study is limit only Takhatpur city hence finding may be differ from other part of country.

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