

CUSTOMER PREFERENCES ON HOME LOANS (A Comparative study of Select Banks)

*M.MADHAVI

** MOHD LAYAQ AHAMAD

ABSTRACT :

Most of the people will have a dream of having their own house in their life time. Even though the income of the people is increasing day by day the expenses are also on a rise. Hence, there is a need for people, to approach a bank or a financial institution for loan in order to own a house or a flat. Housing finance sector is attracting more and more number of customers as the loans are cheaper when compared to other types of loans and repayment period is very long. Moreover there is a possibility of getting tax benefits on the payment of principal and interest of the housing loan. Keeping in view the increasing importance attached to housing finance industry, a study has been undertaken to understand the housing loan patterns followed by some of the select banks. Two public sector and two private sector banks are taken for analysis and the results are tabulated. The study was organized into four parts. The first part gives introduction to the study, objectives and methodology. The second part gives an account of the literature review and the Indian players in home loan segment. The third part describes the process of granting home loans adopted by the select organizations. The fourth part deals with the analysis of data and managerial implications of the study and concludes with the scope for further research.

KEY WORDS: Banks, Financial Institutions, Housing finance, Home loans and Loan Patterns.

INTRODUCTION :

Retail banking is one of the popular segments to enter into for many banks. In retail banking, housing sector has been the most attractive segment which is promising a comprehensive growth rate of about 30-50 per cent estimated for the next five years. With the government keen on infrastructure development and announcing various tax sops, housing loan segment has been a tempted area for many banks to enter into. Housing loan sector can be bifurcated into organized and unorganized segments with the unorganized segments accounting for over 75 per cent of the housing units constructed. During the past 4 –5 years the housing sector helped the economy to grow as the housing finance industry has witnessed significant developments. Nevertheless, the housing finance sector in India has undergone unprecedented changes over the past five years. The importance of the housing sector in India can be judged by the estimate that for every rupee invested in the construction of houses, Rs0.78 is added to the gross domestic product of the country and the real estate sector is subservient to the development of 269 other industries.

OBJECTIVES OF THE STUDY :

The study is carried on with the following objectives.

1. To understand the current scenario of home loan segment in India.
2. To study the procedure of granting home loans adopted by the select banks.
3. To make a comparative analysis of the consumer preferences of the banks for availing home loans from these banks based on the criteria like age, income, education level, processing period for the grant of loan etc.
4. To discuss various factors influencing the preference of the consumers for selecting a particular bank for home loan.

*Associate Professor and Head, Department of Management, Aurora's PG College, Hyderabad

**Associate Professor, Department of Management, Aurora's PG College, Hyderabad.

SURVEY INSTRUMENT :

A questionnaire was developed and administered to a sample of 100 respondents who took home loans at select bank branches in Hyderabad. The development of the instrument was based on a literature review, and discussions with staff. The questionnaire, which was used in this study, describes various factors such as type of loan, amount of loan, rate of interest charged by various banks, processing time and period of repayment etc. for decision towards home loans.

POPULATION AND SAMPLE SIZE :

The population of this research was the customers who took home loans at Hyderabad. Respondents surveyed were customers of various banks taken home loans. The sample respondents for the study were 100 respondents (25 each from each of the bank branches) who have already availed home loans.

DATA COLLECTION :

Data related to the study was gathered from primary and secondary sources of data. Sampling technique used for study is convenience sampling. Primary data was collected by approaching 25 respondents from each of the banks and administering a pre developed questionnaire. The response rate was 100%. Secondary data is collected from journals, magazines and websites related to the banks and home loan segment of India.

STATISTICAL TOOLS :

To analyse the data gathered through questionnaire, averages and percentages were used as statistical tools.

LIMITATIONS :

Every study will have its own limitations so does this one. The patterns observed in this study may only be limited to the sample of respondents availing home loans in the area of Hyderabad. While the selection of banks and respondents was convenient, the approach may limit the generality of research findings. Finally, this study was limited to comparison of HDFC, HSBC, CAN FIN, and Sundaram BNP Paribas.

LITERATURE REVIEW :

Financial Express (2005), found that India is among those countries that registered a very low housing loan penetration rate, with outstanding housing loans to GDP being just 3% as against 51% in the US, 54% in UK and around 10-12% in other Asian countries, Keki Mistry, managing director, HDFC, said on Friday. However, with increasing income, tax concessions on housing loans and easy-to-avail-and-repay housing loans, the scenario is expected to change significantly, Mr Mistry said during the inauguration of the HDFC 'Budget Homes of Bangalore' property exhibition. The potential in the home loan market sector is immense if India touches the average 12% (outstanding loan to GDP) like in several other Asian countries. "With more and more middle class families able to afford to buy homes, the sector is steadily growing", he said, adding HDFC loan disbursement is growing at the rate of 25-30% annually.

John Mylonakis (2007), says that today's bank clients are more informed on market products due to the load of circulating information, making them capable of directly comparing the various competitive products. Clients communicate with other clients, study brochures and receive information from television and the Internet. Therefore, clients are more influenced than in the past by bank pricing policies and seek low borrowing interest rates and low costs for the provision of services. Today's clients turn easily towards the services of another bank than in the past, especially when they only find little and insignificant differences among the various products and services.

Arup Roy Chowdhary(2009) CMD, National Buildings Construction Corporation Limited (NBCC) said that more than 80 per cent of Indian home loan borrowings are below 20 lakhs and it is this segment in the Tier II and Tier III cities that stands to gain after the interest rate cut by state-owned banks. Prospective buyers in metros will have to wait for banks to cut rates across the board or for property prices to plunge.

Vijaya Kumar and Subba Raju (2010) in their article felt that “The housing sector plays an important role in the economic development of the country. Every rupee invested in housing adds 78 paise to the GDP. Over 269 industries are directly or indirectly dependent on the housing sector. There is an estimated shortage of 20 million housing units in the country with an estimated investment requirement of over Rs 1500 billion”

Manoj P K (2010) in his paper seeks to analyse the trend and pattern of the housing finance market in India, identify the major problems and challenges faced by the HFCs, and to analyze their operational efficiency of the major HFCs, in India. While industry level aggregates are collected from the electronic database maintained by Centre for Monitoring of Indian Economy (CMIE), viz. CMIE Prowess. Relevant information regarding the list of HFCs having registration are collected from the industry regulator, National Housing Bank (NHB) (as of August, 2009). He used popular tools of financial analysis (like, ROE, Cost-to-Income ratio, Du-Pont Analysis etc.) for analyzing the operational efficiency of the major HFCs selected for the study, and also to categorize them broadly into a few distinct groups. He also used common tools of statistical analysis (like, Trend Analysis, Correlation Analysis, Regression Analysis etc.) to test if there is significant variance in the relevant performance parameters that determine their overall operational efficiency. Formal system for housing finance in India is primarily dominated by two major types of institutions, viz. commercial banks (CBs) and housing finance companies (HFCs), and a very small share of the market (nearly 0.5 percent, for the last few years) goes to the third group viz. co-operative sector institutions.

Economic Times (2010), shows that new home loan borrowers may have to pay higher interest rates as banks may look at revising the base rate in the first week of October. At the same time, banks are unlikely to immediately raise rates for existing home loan borrowers. This was indicated by several banks speaking to ET while reacting to RBI’s move to raise repo and reverse reporate.

THE INDIAN SECNARIO :

In India various commercial banks and financial institutions are providing home loans to their customers.*The following is a list of home loan providers operating in the country.

Major Home Loan Providers :

Banks and Public Sector Housing Finance Companies	State bank of India, Corporation Bank, Punjab National Bank, Central Bank, Dena Bank, Bank of Maharashtra, Bank of Baroda Housing Finance, Can Fin Homes, GIC Housing Finance, LIC Housing Finance, PNB Housing Finance, SBI Home Finance, HUDCO etc.
Financial Institutions	HDFC, ICICI, Citibank, HSBC, Standard Chartered, IDBI, Grind Lays etc.

Types of Home Loans offered by Financial Institutions

- Home Purchase Loans
- Home improvement loans
- Home Construction Loans
- Home Extension Loans
- Home Conversion Loans
- Land purchase loans
- Bridge Loans
- Balance Transfer Loans
- Re Finance Loans
- Stamp Duty Loans
- Loans to NRI’s

Process of Home Loan :

First step in getting a home loan involves filling up of application form of the chosen financial institution or commercial bank along with the required documents by paying a one time processing fee and submitting the prescribed documents to get through the loan processing stage. The details of the documents required to be submitted for the two major categories of customers i.e. salaried and self employed are mentioned hereunder.

Salaried people	Self employed
The latest salary slip showing statutory documents	Computation of income for previous two years
Form 16(showing tax deducted at source)	Profit and loss A/c and Balance sheet of last two years
Proof of age	Proof of age
Proof of Residence	Proof of Residence

Four organizations HDFC, Sundaram Finance, Canfin Homes and HSBC were selected for the study. The popularity to these organizations in the customer community made them the choice of study for the authors. Generally, various organisations have varied set of rules and eligibility criteria for sanctioning home loans. The under mentioned is a brief description of the selected institutions and procedures followed by them for processing home loans.

HDFC :

Housing Development Finance Corporation is India’s largest housing finance company with market share of 55% in loan disbursals. Being in business for over 25 years, HDFC has an impressive loan portfolio for varied housing finance needs. In the home loan segment, HDFC offers home loans for individuals to purchase fresh or resale house, construct new house, home extension, home repairs and purchase of plots.

Eligibility criteria :

There is a great flexibility and variety in the home loans as it is open to salaried and self employed individuals alike to both residents and non-resident Indians and requires guarantor, charges one time processing fees and offers choice of variable and fixed rate loans.

Indian Residents :

- Stability and continuity of occupation and saving history
- Repayment capacity takes into consideration factors such as income, number of dependents, spouse income, assets and liabilities.
- The applicant should have steady source of income

NRI’s :

- Loan eligibility subject to 85% of the cost of the property
- Repayment capacity assesses factors such as income, age, qualification, number of dependents, spouse income, assets and liabilities.
- The applicant should have steady source of income

Loan Amount :

HDFC offers maximum loan of one crore, HDFC finances up to maximum of 85% of the cost of the property inclusive of agreement value, stamp duty and registration charges. HDFC home improvement loan facilities internal and external repairs and other structural improvement. HDFC finances up to 85% of the cost of renovation (100% for existing customers). In purchase of land, HDFC finances up to 70% of the cost of Land.

Loan Repayment terms :

In case of home loan to purchase fresh or construct houses, and home improvement loan 15 years or retirement is the maximum period of repayment, whichever is earlier. In case of home extension maximum term is 20 years subject to retirement age.

HSBC :

Hong Kong and Shanghai Banking Corporation has made enormous strides in the home loan segment. It provides loans to Indian residents and NRI's in the home loan segment for ready property, under construction property, self construction property and home improvement.

Eligibility criteria for Indian Residents :

Applicant should not be less than 21 years age and maximum age for loan eligibility is 58 years for salaried and 60 years for public limited and Govt. employees and 65 years for self employed professionals. Repayment capacity takes into account, income where net income should be 1.5 lacs p.a. Repayment option depends on the stability and continuity of occupation saving history.

Eligibility criteria for NRI's :

NRI applicant must have a local co applicant or a local power attorney holder. Applicant should not be less than 21 years age. Repayment capacity assesses factors such as income, age, qualification, number of dependents, spouse income, assets and liabilities. The applicant should have steady source of income

Loan Amount: HSBC offers loan range from Rs. 5 lakhs to Rs. 3 crore.

Loan Repayment terms: The maximum repayment period can go up to 25 years.

SUNDARAM HOME FINANCE LTD. :

Sundaram home finance limited was incorporated on 2nd July 1999. It is a subsidiary of Sundaram Finance limited. It has 36 branches all over India. Sundaram finance ltd. and Union de Credit Pour Batiment (UCB) a wholly owned subsidiary of BNP Paribas Finance had entered into agreement on 9th July for strategic partnership in housing finance in India. It includes 6 branches in A.P. In Hyderabad it has one branch. It has four departments, namely Legal Dept., Technical Dept., Credit Operations, and Accounts Department to complete the process for sanction of home loan.

Process of Loan sanction: it involves steps such as Sales, Field Investigation Report, Credit Department, Field Number generation, internal check, Recommendation, Review, Approve from Manager, Disbursement officer.

Types of loans: It offers Home loans for a period of maximum 20 years, Home improvement loan for 15 years, home extension loan for 15 years, and Lamp loan for 10 years used for keeping property mortgaged.

CAN FIN HOMES :

CAN FIN HOMES Limited, was set up with a mission of promoting home Ownership and increasing Housing stock all over the country. It was promoted in 1987, "International year for shelter for homeless" by Canara Bank in association with reputed financial institutions including HDFC.

Eligibility criteria :

Applicant should be earning a regular monthly income, salaried individual with minimum of 5 years of service left, A Govt. employee, professional, business man with age less than 58 years having filled IT returns for last 3 years. Spouse can be made as co applicant if he/she is earning to enhance the loan amount. For self employed professionals. Repayment capacity takes into account, income where net income should be 1.5 lacs p.a. Repayment option depends on the stability and continuity of occupation and saving history.

Loan Amount :

Maximum of 10 crores can be availed for loan depending upon repayment capacity. Repayment capacity assesses factors such as income, age, qualification, number of dependents, spouse income, assets and liabilities. CANFIN finances up to maximum of 80% in case of site loan, and 85% of the project cost of the property. NRI applicants are eligible for maximum loan amount of 25 lakhs or 80% of project cost which ever is low.

Loan Repayment terms :

Incase of site loans 5-10 years and for other loans 5-20 years is the repayment period for Indian residents, and 5 to 7 years is for NRI's.

DATA ANALYSIS :

PROFILE OF THE RESPONDENTS

The respondents were belonging to various categories like male and female, salaried employees and business people of various income and age groups. A total of 100 customers, 25 from each of the organization were taken as the sample for the study and administered with the questionnaire. From the data collected, the data related to the most influential factors was tabulated and presented below.

Table 1: Age of the Respondents and preferences

Age	SUNDARAM	HSBC	CANFIN	HDFC	Total
21-30	5	11	2	3	21
31-40	15	5	14	12	46
41-50	2	8	6	8	24
51-60	3	1	3	2	9
Total	25	25	25	25	100

Source: Primary Data

Table 2: Income of the Respondents and preferences

Income	SUNDARAM	HSBC	CANFIN	HDFC	Total
1-2 Lacs	2	0	0	0	2
2-5 Lacs	11	1	15	10	37
5-10 Lacs	10	16	6	10	42
10-15 Lacs	1	8	1	4	14
15-20 Lacs	1	0	3	1	5
Total	25	25	25	25	100

Source: Primary Data

Table 3: Education of the Respondents and preferences

Level of Education	SUNDARAM	HSBC	CANFIN	HDFC	Total
U .G.	3	8	0	0	11
Graduate	8	9	13	4	34
P.G.	9	8	9	13	39
Professional Education	5	0	3	8	16
Total	25	25	25	25	100

Source: Primary Data

Table 4: Preferences based on the Amount of Loan taken

Amount of Loan (In Lacs)	SUNDARAM	HSBC	CANFIN	HDFC	Total
Below 5	3	0	1	2	5
5-10	9	10	12	4	35
10-15	7	6	9	7	29
15-20	4	6	2	5	17
20 and above	2	3	1	8	14
Total	25	25	25	25	100

Source: Primary Data

Table 5: Type of Interest charges and preferences

Type of Interest Rates	SUNDARAM	HSBC	CANFIN	HDFC	Total
Fixed rate	0	4	8	0	12
Floating Rate	25	21	17	25	88
Total	25	25	25	25	100

Source: Primary Data

Table 6: Rate of Interest charged and consumer preferences

Rate (%)	SUNDARAM	HSBC	CANFIN	HDFC	Total
7-8%	-	-	2	-	2
8-9%	-	-	5	-	5
9-10 %	-	-	1	2	3
10-11%	-	-	2	6	8
11-12%	14	-	15	16	45
12-13%	5	16	-	1	22
13-14%	3	5	-	-	8
14-15%	3	4	-	-	7
Total	25	25	25	25	100

Source: Primary Data

Table 7: Processing time taken for Loan Disbursement and preferences

Processing time	Sundaram	HSBC	Canfin	HDFC	Total
1 day	4	-	-	-	4
2-5 days	21	-	12	3	36
1 week	-	3	12	16	31
10 days	-	22	1	6	29
Total	25	25	25	25	100

Source: Primary Data

Discussions on the data analyzed :

1. Age group of respondents has been considered as one of the important parameter to judge preference of home loans institutions. It's observed that people below age group of 40 years are more in number as age group 31-40 has covered 46% of respondents. This suggests the fact that majority of the people of this age are availing home loans. Sundaram Finance is the preferable option of the customers followed by Canfin.
2. Income of the customers is another important factor influencing the study. Customers with an income range of 1-20 lacs have been considered for the study and categorized into groups. Through the study it was observed that customers who have an income level ranging between 5-10 lacs were availing home loans to the maximum extent. The most preferred organization is HSBC. Other than this category, people with 2-5 lacs of income also preferred to go for a home loan choosing Canfin.
3. It is observed that majority of respondents availing home loans have a postgraduate qualification and their percentage is 39% among the total number of respondents. This shows that educated people are more showing added interest in availing home loans as there is a possibility for them to avail some tax benefits both on the interest payments and principal payments. The most preferred organization is HDFC by these people and close followers being Canfin and Sundaram.
4. The total amount of loan availed also influences the consumer preferences of home loans. Majority of the respondents preferred to have a loan ranging between 5-10 lacs which is evident from their percentage i.e 42 out of the 100 respondents. The consumers preferred Canfin homes for availing home loans, closely followed by Sundaram.
5. There are two types of interest rate patterns followed by the housing loan providers. Fixed rate is a constant rate of interest charged for the whole period of loan irrespective of the market conditions. Contrary to this floating rate of interest changes as per the prevailing market rates and conditions of the financial markets of the country. It is noted through this study that majority of the customers preferred floating rate of interest as indicated by 88% of the total population and only 12% of the respondents preferred fixed interest rate. The preferred organizations are Sundaram and HDFC.
6. It was observed during the study that different rates of interest were charged by the organizations taken for the study and the interest rates charged are between 7-15%. Though different interest rates prevailing in the market, most of respondents i.e 45% have taken home loans in the range of 11-12% rate of interest. Customers preferred HDFC and Canfin respectively in this range of interest rates. The next rate of preference is 12-13%, HSBC being the choice.
7. Processing period is another important factor that can influence the customer choice of organization for availing loan. The processing period for the select organizations varied between 1-10 days. Sundaram is complimented as the one for speedy processing and HSBC received the comment of being late in the process. Sundaram and Canfin were the most preferred organizations in this category.

Managerial Implications :

1. Banks and financial institutions Companies need to be aware that though majority of the respondents prefer floating interest rates, respondents preferring fixed rate of interest should not be ignored.

2. It is evident from the results of this study that salaried people are looking for Home loan facility to avail tax exemption hence Banks and financial institutions should make best use of this opportunity and come out with good schemes.
3. As educated people and nuclear families are more inclined towards availing home loan, they can be concentrated well.
4. As loan taken for purchase of home is most preferred as compared to other aspects, institutions can think of devising strategies to upgrading of other areas of home loans.
5. Focus should be made on declining interest rate, as it is suggested by majority of respondents.
6. Decline in processing fee is also a good opportunity for attracting new customers to avail home loans.
7. All income groups should be concentrated to enhance the performance of home loan disbursements.
8. Respondents in the age group of 31-40 years are most preferred in home loans hence they can target more to enhance home loan business.
9. Finally, significant investments can be made by companies on maturing the market and fuelling adoption in various segments through creating awareness by advertisements and other promotion tools to deal with competition.

Conclusion :

Having an own house is the dream of average Indian. To fulfill the dream of the average man, a number of public sector, private sector banks and financial institutions are extending their support by providing housing loans. The public sector banks are always the choice of conservative borrowers as it is believed to be shock resistant to the market changes. Private sector banks and financial institutions are also lending their hand to the needy investors in extending the facility of housing loans. The study indicates that irrespective of the sector, customers prefer the institution which sanctions the loan in the minimum possible time and with simple procedures. The other factors influencing their preferences being the amount of loan and the repayment period along with the rates of interest charged by the organizations. The housing loan sector would continue to be attractive for the customers as well as the banks financial institutions for the forthcoming years also.

Future Research Direction :

Based on the findings of this study, future research is recommended to extend and expand its scope. While this study examined the preferences of respondents at Hyderabad, it would be interesting to explore how preferences are in different locations of India and also with different banks and financial institutions. Future research may examine alternative actionable strategies to further improve home loan process in India. As the home loan has been perceived by the customers as a tax exemption facility and source of increased house constructions, it has become permanent feature in the portfolios of banks and financial institutions. Hence, more research effort is considered necessary to understand the happenings of housing loan segment.

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