



A COMPARATIVE STUDY OF HOME LOANS OFFERED BY PUBLIC AND PRIVATE SECTOR BANKS IN NAGPUR DISTRICT

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ABSTRACT

Every citizen of the country dreams of having his own house. Home is a basic need of a human being; it is an important facet of economic development. The dream home is not very far away with home loan, which will fulfill the dream into reality. The demand for home loans has increased manifold in the last decade. There are number of housing finance companies and banks offering cheap home loans at a low interest rate. The home loan schemes offered by both public and private sector banks are very competitive. Our study aimed at comparative analysis of home loans schemes offered by public sector and private sector banks in Nagpur. The paper also examined the satisfaction level and problems faced by customers while availing home loan. For this purpose we have taken four commercial banks in Nagpur city namely SBI, BOI, HDFC Bank 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. For the study we have collected both primary data as well as secondary data. Finally the whole research was carried out in a systematic way to reach at exact result. The whole research and findings were based on the objectives.

KEYWORDS: Home Loans, public sector banks, private sector banks, customers.

INTRODUCTION

A home loan is a long term commitment which is critical. The demand for home loans has increased manifold in the last decade. The reason for this growth is not hard to see, changing

mindset with globalization and integration with the developed economies, where mortgages rule the roost, income tax sops in the Union Budgets and substantial rise in the income-generating capacity of Indian youth. So, the present scenario of home loans shows good amount of growth and is heading for a bright future. There are number of banks and housing finance companies offering cheap home loans at a low interest rate. The home loan schemes offered by both public and private sector banks are very competitive. Mostly people prefers public sector banks for home loans, especially because they believe that it is more secure bank and interest rate is lower. On the other hand the private sector banks are coming daily in our country and the preference of younger population is changing because of services & facilities provided by them. And the most important thing is that the customer should know about each and every term related with Home Loans before applying for a Loan. There are different types of home loans tailored to meet customer needs like Home Purchase Loans, Home Improvement Loans, Home Construction Loans, Home Extension Loans, Home Conversion Loans, Land Purchase Loans; Bridge Loans & Mortgage Loans offered by public and private sector banks.

ADVANTAGES OF HOME LOANS

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

- Help in owning a home
- Tax benefits of home loans
- Attractive interest rates
- Long term loan
- Repayment schedule on the basis of Earning Capacity of the borrower

- Facility of joint loan

And the advantages to the bank offering home loan are also profitable. Moreover, since the larger part of this loan is given against mortgages of personal properties, the propensity of default is low. Efficient management of Loans and Advances portfolio has assumed greater significance as it is the largest asset of the bank having direct impact on its profitability.

DISADVANTAGES OF HOME LOANS

The main disadvantages of home loans are highlighted as below:

- High processing fee
- Delay in processing
- Fluctuating interest rate
- Problems in disbursement

The above mentioned disadvantages or limitations can be removed by providing good, prompt and efficient services to the customers.

LITERATURE REVIEW

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).

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 dramatic reductions and subsequent increases in interest rates during the early- mid-2000 , the housing loan boom was concentrated in those markets with significant supply-side restrictions, which tend to be more price-volatile. The 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) analyses in his study, the factors that affect 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 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.

La cour Micheal (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 to verify whether results vary when loans are originated through mortgage brokers. In this case regression analysis has been used and results have shown 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.

DePaul Singh (2001) in his study entitled consumer Behavior and Bank Retail products an Analysis “Stresses that the borrowers attitude is an important factor for the improvement of housing loan schemes.

R.R.Krishna and V.S.Krishna Mouthy (1999) stress in their article entitled “Trend and policy Issues of Housing finance in India”, that simplified procedures and speedy sanction of housing loans will give a boost to the constructing houses.

RESEARCH METHODOLOGY

Scope of the study

The study was limited to the customers of private and public sector banks across Nagpur district. The number of customers interviewed where 200.

Objectives of the study

Main objectives of the present study are:

1. To evaluate & compare the Home Loan schemes of SBI, BOI, HDFC and ICICI.
2. To know about the customer’s response regarding the home loans.
3. To study the satisfaction level of customers while dealing with the banks.
4. To study the problems faced by customers in obtaining the home loans.

Hypothesis

Hypothesis that are tested in this study are:

1. There is significant difference between public sector bank and private sector bank with regards to politeness of bank employees.
2. There is significant difference between public sector bank and private sector bank with regards to promptness of bank employees.
3. There is significant difference between public sector bank and private sector bank with regards to overall satisfaction of customers.
4. As compared to Public Sector Bank we may found that getting home loan is easy in Private Sector Bank because they doesn't require large formalities to be fulfilled.

Collection of data

For the study we have collected both primary data as well as secondary data. The primary data has been collected through the responses of the customers through structured questionnaires to check the satisfaction level of customers about the home loan schemes and their providers. In secondary data, the annual reports of RBI,

commercial banks and brochures of these banks, articles published in magazines, journals, newspapers have been studied.

Sample design

Instrument used	Questionnaire
Technique of survey	Personal interview
Sampling unit	Customer
Sampling area	Nagpur
Sampling	Random
Method used for research	Survey method
Sampling size	200

Limitations of the study

1. This research study was time bound and only certain criteria were taken up for study.
2. This research study was taken in a limited area only (i.e Nagpur city) and findings may vary from place to place.
3. Some of the respondents might have been biased in their responses as it depends on their experience gained by them during processing of such loans.

COMPARATIVE ANALYSIS OF HOME LOAN SCHEMES OFFERED BY SBI, BOI, HDFC and ICICI BANK

Basis	SBI	BOI	HDFC	ICICI
Eligibility	Min. age – 18 years Max. age – 70 years	Min. age – 18 years Max. age – 70 years (65yr for salaried)	Min. age – 21 years Max. age – 65 years (60yr for salaried)	Min. age – 21 years Max. age – 65 years (60yr for salaried)
Max. Loan Amount	Upto 10 crore	Upto 5 crore	Upto 10 crore	Upto 10 crore
Rate of Interest	9.35% - 9.4% Floating	9.7% - 9.95% Floating	9.4% - 9.95% Floating	9.4% - 9.45% Floating
Lowest EMI	Rs.830/- per Lakh for 30 years.	Rs.855/- per Lakh for 30 years.	Rs.834/- per Lakh for 30 years.	Rs.834/- per Lakh for 30 years.
Repayment Period	Maximum 30 years	Maximum 30 years	Maximum 30 years	Maximum 30 years
Margin / LTV Ratio	Upto 90%	Upto 85%	Upto 90%	Upto 90%
Processing Charges	0.35% of loan amount, Min. Rs.2,000 and Max. Rs. 10,000. (Plus S.T.)	0.25% of loan amount, Min. Rs.1,000 and Max. Rs. 10,000. (Plus S.T.)	0.5% of loan amount, Max. Rs. 10,000. (Plus S.T.)	0.5% of loan amount, Min. Rs.2,500 and Max. Rs. 10,000. (Plus S.T.)

ANALYSIS & INTERPRETATION

The analysis is based on the response given by customers through questionnaires
DEMOGRAPHIC PROFILE OF THE RESPONDENTS

Gender	No. of respondents	Percentage
Male	154	77%
Female	46	23%
Total	200	100%
Age (in yrs)	No. of respondents	Percentage
25 – 35 years	112	56%
35 – 45 years	50	25%
45 – 55 years	26	13%
55 – 65 years	12	6%
Total	200	100%
Educational Qualification	No. of respondents	Percentage
Upto class 12 th	30	15%
Diploma	20	10%
Graduate	96	48%
Post Graduate	54	27%
Total	200	100%
Occupation	No. of respondents	Percentage
Salaried	110	55%
Own Business	40	20%
Professional	50	25%
Total	200	100%
Marital Status	No. of respondents	Percentage
Married	170	85%
Unmarried	30	15%
Total	200	100%
Annual Household Income		
Less than 2 Lakhs	40	20
2 to 4 Lakhs	76	38
4 to 6 Lakhs	54	27
More than 6 Lakhs	30	15
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 Hypotheses: There is no significance difference between public sector bank and private sector bank with regards to politeness of bank employees.

Group Statistics				
	N	Mean	Std. Deviation	Std. Error Mean
Private Sector Banks	100	2.68	.885	.093
Public Sector Banks	100	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
V1	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 with regards to politeness of bank employees.

Null Hypothesis : There is no significance difference between public sector bank and private sector bank with regards to promptness of bank employees.

Group Statistics				
	N	Mean	Std. Deviation	Std. Error Mean
Private Sector Banks	100	3.83	.738	.078
Public Sector Banks	100	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
V2	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 with regards to promptness of bank employees.

Null Hypothesis : There is no significance difference between public sector bank and private sector bank with regards to overall satisfaction of bank customers.

OVERALL SATISFACTION LEVEL OF THE RESPONDENTS

Group Statistics				
	N	Mean	Std. Deviation	Std. Error Mean
Private Sector Banks	100	3.50	1.097	.099
Public Sector Banks	100	2.96	.979	.112

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
V3	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 significance difference between public sector bank and private sector bank with regards to 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 OF THE STUDY

- 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.
- The majority of the respondents wants to take a loan for the construction of the new house.
- Home Loan availing procedure is very much difficult for the people who demanding it. Some Customer's does not has proper knowledge about different home loan schemes.
- Public Sector Banks require large formalities to be fulfilled.
- Respondents are agreeing on the statement that easy availability is an important factor for taking the home loan from the particular bank.
- According to the respondents miscellaneous expenses affect their selection for home loans.

- People get knowledge about home loans from television, internet, families and friends.

RECOMMENDATIONS AND SUGGESTIONS

- Banks should use easy / simple procedure for the sanctioning of home loans to the customers.
- The banks need to improve on the customer satisfaction level due to stiff competition among the banks.
- Banks employees who deal with customers should have complete knowledge about the home loans. More personal attention should be given to the customers and working efficiency should be increased.
- The bank should improve their customer service. The services provided by banks need to be automated.
- The loan passing process should be quicker by public sector bank like a private sector bank.
- Rate of interest should be competitive and free accident insurance cover for home loan customers should be provided.
- Many booklets and attractive advertisement should be provided to the customer for awareness about different housing loan schemes of public sector banks like private sector banks.

CONCLUSION

In summary we can conclude that both public sector and private sector banks truly deserve to be the leading banks in home loan sector. The services offered by them are very competitive. Mostly people prefers public sector banks for home loans, especially because they believe that it is more secure bank and interest rate is lower.

On the other hand the private sector banks are coming daily in our country and the preference of younger population is changing because of services & facilities provided by them. Private sector banks are very fast and lots of time they make things easy for borrower and also bends some rules for home loans but on the other hand public sector banks rules are very strict and stringent. The documents needed for home loan by private sector banks are also less as compared to public sector banks.

It was found that private sector banks are very popular among the customers these days. The satisfaction level that customer have with these banks is very high in comparison to public sector banks. Customer are associated with banks for many services that they require on regular basis and people tend to prefer banks which provide better facilities and convenient banking. From the overall analysis it can be said that the satisfaction level in relation to the services provided by private sector banks are very high as compared to public sector banks. Different banks offer same product but their services differentiate and the bank has gone for in this direction. The customer can choose these schemes which he feels is good for him and have the capacity to repay it on that specified time period.

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