PROBLEMS AND PROSPECTS OF HOMELOAN IN PRIVATE SECTOR BANKS

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ABSTRACT

In this paper an attempt is made to identify that there are key difference in the actual purchase of the consumers of housing loans of public sector banks, private sector banks and new generation public sector banks. As regard with the important product traits are concerned, litheness, processing fees, processing period and interest rates plays a vital role in all the three types of banks. Majority of the Customers prefer and avail their housing loan from Public and Private Sector bank. The customers visit and avail the housing loan in meager amount from new generation public sectors bank. The main objective of this study is to find the customer preference for housing loan from three categories of banks using summary statistics and Chisquare test.

Keywords: Public Sector Banks, Private Sector Banks, New Public Sector Banks, Summary Statistics and Chi-square Test.

INTRODUCTION

A person should be meet three basic needs to be able to survive. These three needs are food, clothing &shelter. Today, we see that most families give the importance to providing good education to their kids & also give importance of owning a house is on top of their priority list. Having your own home can actually increase your standard of living& it will be added to your assets. Another the advantage of owning your own home is that you can be able to avoid those landlords who constantly raise their rental fees. One of the top reasons of smart people who like to purchase a property is because of the tax benefits. There is tax rebate to house loan installments. Buying a home is very possible even for those who are on a tight budget. This is due to the fact that banks and other financial organizations have provide loans to these peoples and also lowered their interest rates and restructured their mortgage plans. Shelter is a basic human need, which has become a major challenge in a country, which is fast urbanizing. Maharashtra is one of the most urbanized states in the country. Whereas nationally 27% of the population was in the urban areas, &in Maharashtra the figure was 42% (Census 2020). Housing in urban areas assumes much greater significance, as it relates not only to basic shelter needs but also provides a facility to the citizens to access services and be part of the development process.

Growth of manufacturing industry & service sector activities are increasing around urban area. So more people from rural area are attracted towards the urban area for employment. Because of that there is more pressure on urban area or cities, to provide shelter to this incoming population. So there is increase the demand for home which leads to increase the rates of land& construction. It is difficult for layman to purchase home in single cash payment. Though the government provides various facilities, still there is very difficult task to build a house for middle and lower income class peoples. So they move towards banks or financial institute which helps them &gives them better services and maximum loan amount. The tenure of loan is very long & they must manage their loan installment with their limited budget. Due to increase the number of loan taker, there increases the healthy competition among the banks. Banks also get strong business from this loan disbursement. So they provide different schemes to attract the customers.

Challenges for home loan industry

The housing finance sector has emerged as one of the outstanding successes over the last decade. In the earlier scenario, there were select few dominant players in the housing finance industry, whereas in the current scenario, there is an increase in the number of players in the housing finance industry over last three years. This has increased a hefty competition in the housing finance industry.

Declining interest Rates The interesting trend that has emerges in the housing finance market over the last few years is the decreasing importance of interest ratesThis acts as a competitive tool. The interest rate charged by a small HFC was at least two-and-a-half to three percentage point higher than the rate charged by HDFC. The banks would of course charge the lowest rate. The nationalized commercial banks, still offer the lowest rates on some occasion. There is not much difference in the interest rates amongst the various players in the housing loan segment.

Service and Product Innovation

The service and product innovation are the only way to differentiate one company's product from another. This is due to the absence of a significant difference in interest rates. The difference of a half-a-percentage point in interest on housing loans can be easily offset by quick and reliable service. The product innovation as used to capture the market in this industry. The competition has made the housing finance institutions look for the needs not met in a seemingly straight forward product. Now the HFCs are offering insurance packages that come attached to a housing loan product. The severe competition will bring few more innovations in the future. The product innovation is unlikely to remain unique for long because companies quickly mimic a successful introduction. The only benefit from product innovation is to build an image and the advantage of being the first to capture the market.

Smaller HFCs

The image building is likely to be very crucial to all HFCs. The traditional strengths of HDFC, ICICI and LIC housing finance made the life of smaller HFCs very tough. The smaller HFCs are likely to be more active in smaller towns. The smaller towns are less likely to witness head-on competition from bigger players. So in this segment the smaller HFCs try to capture the market

HFCs vs Banks

The banks aid HFCs are competing each other in the housing finance market. The severe competition between these two housing finance providers had made them to adopt various strategies to increase their market share. The HFCs are facing lot of constraints as against the banks. The banks have access to lower cost of funds compared to HFCs because banks have easy access to low cost retail funds and low minimum capital adequacy ratio. The HFCs are not given refinance by NHB at competitive rates. The banks despite a late entrant have overtaken the HFCs in the home loan markets. The share of banks in total home loan disbursements has risen from 43.6% in the year 2020-21 to 65.5% in 2022-23.

Consumer Services

The current housing finance market is skewed in the favor of the buyers. The home buyers are rushing to take a housing loan without fully exploring the options available. The housing finance sector has certainly become more competitive in recent times. The banks and housing finance companies market their housing finance products much more aggressively. The customers are seeking more convenience in the entire process of acquiring a home as well as the finance for it (Rajiv Sabharwal 2002) . Therefore the marketing has assumed significance in the rapid increase in activity of housing finance sector. The housing finance institutions are resorting to various marketing strategies to effectively market the specialized finance products. The housing finance providers are trying to satisfy the customer. As far as the industry is concerned the customer appears to gain from the competition in the way of better products better prices and better services (Gunit Chadha 2002). The real discriminating point, as far as the customer is concerned, will become his perception of the quality of service of one company over the other.

Housing Scenario in India

After the Second World War, there was a wave of national Independence movement throughout the world. The newly independent countries had a very strong desire to change their own fates to improve their economic and living conditions. As a developing nation India after independence gave maximum priority to agriculture and industries. The industrial sector is the sector which has the ability to generate maximum revenue and it will also attract a huge amount of foreign currency reserve for the country. On the other hand, it requires a huge labour supply for its growth. The Urban population is not at all sufficient for this large requirement. So due to this reason people from rural areas migrated towards the industrial areas. But these rural populations were having very low levels of skill and education which forced them to opt for low wage works. Due to less availability of money in hand, these people barely satisfy their basic needs of food and clothing and having a proper shelter was like a dream for them. In this way the problems of informal settlements like slums and squatters originated in urban areas. The housing shortage is defined as the gap between the total population of the country and number of housing stock available for them. If we look at the housing shortage or surplus in India in different time periods then we can able to assess the gravity of this housing shortage problem.

Changes of government policies towards housing sector

From the year 1950 the focus of the central government had started to shift towards the housing sector. If we distinguish the government's role in this sector in different phases of time, then we can find out that after 1950 to 1990 the role of the government was to provide people with housing; after introduction of national housing policy in the year 1988 the government role was changed from a 'provider' to an 'enabler' and after 2010 onwards it is facilitating the process of housing production, delivery and investment. The major steps that were taken in that time were the formation of HUDCO, HDFC and National Housing Bank (NHB). During this time period the Government had figured out some problems in the process of housing construction and delivery. These are: -

- Lack of housing affordability.
- Unavailability of advanced and time-consuming technology and system. Problems in land allocation.
- Requirement of institutional and policy framework.
- Lack of constant supply of building materials.
- Unavailability of skilled labor.

After getting familiar with these problems the government has improvised its approach in providing the houses with basic services without dismantling the existing structure or without resetting the Slums to the other place and by creating the opportunities of income generation. The major step had taken in this phase was introduction of Jawaharlal Nehru National Urban Renewal Mission (JNNURM) which had become a flagship programme in urban poverty alleviation from the year 2005.

In the year 2009 Rajiv Awas Yojana (RAY) was declared by the government with the objective to achieve Slum Free India. The major difference between JNNURM and RAY is that, in case of JNNURM the people who have the ownership of their land got benefited but RAY was proposed for those people who did not have ownership of the land. RAY for the first time proposed a curative as well as a preventive approach to restrict further formation of slum and quarter settlement. It directed each and every Urban Local Body (ULB) to prepare a Slum Free City Plan which contained all details of existing slums in the city, housing typologies, structural quality, land tenure and quality and quantity of basic services provided to them. With the plan report any ULB could propose a slum redevelopment plan for the migrating people and the provision for rental housing was introduced for the first time for these people. After 2010 onwards governments' focus got shifted from 'enabler' to 'facilitator'. During this phase government is not getting directly involved in the process of housing construction and delivery rather than the government allocating the fund in terms of loans to the individual and the Real Estate Developers with the provision of Interest Subsidy, Mortgage Guarantee, Regularization of housing finance market etc. On the other hand, the government has also got involved in submission of new technology which will reduce the time of housing construction up to 1 to 1.5 years.

In the year 2014-15 government announced the most important scheme Pradhan Mantri Awas Yojana (PMAY) with the objective of achieving Housing for All by 2022. All the preventive approaches of RAY are merged in PMAY and the government gives more focus on providing rental housing by the formation of Draft Rental Housing Policy, which discusses the type of migrating population, their requirement for housing and what should be planners' strategy to satisfy the demand of these transitional people.

REVIEW OF LITERATURE

Dr. P.S. Ravindra, Dr.P.Viswanadham and Ch.T.Rao, (2013) investigated on "Operational and Financial Performance Evaluation of Housing Finance Companies in India (a case study of LIC Housing Finance Limited and HDFC)" and found that the success of the LICHFL and HDFC in the housing industry is in its marketing network and suggested that both housing finance institution should modify and differentiate their service packages from other financial companies which assure maximum benefits to the customers.

J.Babu, (2013) investigated on "Housing Finance Problems of Borrowers (A Comparative Study of LICHFL and HDFC)" and found that the major problem of sample borrowers is with regard to rigidity of rules and regulation and suggested that the loan application and other documents may be supplied to the borrowers in local languages for easy understanding he also suggested that the period should be reduced considerably by simplifying the procedures on the part of HFI's.

S.T.Rao, (2013,) investigated on "A Study on Comprehensive Problems of HDFC and SBI Home Loan Takers in Andhra Pradesh State" and found that the designing of shelter policy, the organization of the housing finance market, the Introduction of Fiscal incentives , increased public investment have brought about the no. of changes in the housing finance and suggested that home loan providers should continue to address the huge potential in the industry and should maintain their focus on the individual loan segment he also suggested that service and product innovations are the key tools for success at present.

Arunodayam and Thangavel (2007) reviewed the problems of Housing policies, performance of selected housing finance institutions and banks, identified the role and method of supplying credit through housing finance companies. The study was conducted in the city of Chennai on a sample of 300 home loan borrowers of HDFC, LIC housing finance ltd, ICICI bank ltd. It was observed that average number of family members opting for home loan is 4. Higher educated people, respondents with middle and higher income avail more loans. The average loan amount availed by respondents is Rs. 4.6 lakhs and it is seen that spouse income also supports the household. Further, it is observed that selected institutions account for 67 percent of the home finance loans. It is also observed that majority of the respondents are not happy with the interest rate charged by housing finance institutions in spite of the tax benefits offered by the government. Majority of respondents support fixed rate of interest and feel steady repayment is not a burden.

Manoj (2010) studied the major problems and challenges faced by HFCs in India and analyzed the operational efficiency of major HFCs in India using ROE and cost to income ratioand also to benchmark them based on operational efficiency. For the purpose of study 10 HFCs registered with NHB were selected. It was concluded that due to growing competition and decreasing profit , many smaller HFCs had stopped their business. There also exists the problems of higher cost of funds, asset liability mismatches. Cost control is needed to enhance the operational efficiency of HFCs.

Kaur R (2013) conducted the study to analyze the level of customer satisfaction in regard to services provided by HDFC (private sector) and GIC housing finance (public sector) institutions. The data was collected through questionnaire administered to 100 respondents selected conveniently, 50 from each institution. It was observed maximum amount of loan was disbursed by HDFC and maximum loan taken by businessmen followed by government employees. It was then analyzed that the respondents from GIC HF had borne high cost for availing loan. Most of the agriculturists followed by private employees have borne high cost for availing loan. Most of the respondents from GIC HF, agriculturists feel that high rate of interest is charged. Most of HDFC respondents, government employees are satisfied with the loan provided. Respondents from GIC HF, most agriculturists and individuals having income from 2 to 3.5 lakh were of the opinion that they have to fulfil more formalities. Respondents from HDFC, most businessmen and respondents having income upto 3.5 lakhs were of the opinion that they faced delay in processing of loan.

Munjee et al., (1990) opined that credit flows into the housing sector originates therefore from formal or informal sector like, budgetary allocations, of central and state governments, financial institutions like the LIC, Unit Trust of India, Commercial Banks, provident funds and Public Sector Institutions such as HUDCO.

Singh, et.al, (2006) in his article described the housing sector by introducing various housing loan schemes for rural and urban population. The first attempt in this regard was the National Housing Policy (NHP), which was introduced in 1988. The National Housing Bank (NHB) was set up in 1988 as an apex institution for housing finance and a wholly-owned subsidiary of Reserve Bank of India (RBI). The main objective of the bank is to promote and establish the housing financial institutions in the country as well as to provide refinance facilities to housing finance corporations and scheduled commercial banks. **Anand Kumar T.S and others (2008)** in their paper they examined the practical guidance to MFIs adopting the housing programme in addition to the existing line of microfinance services and inputs about any market study, profiling the customers, product design, pricing of the product, affordability of the clients, income assessment, loan assessment, operational procedures, risk coping mechanisms and technical backup guidance. They found that MFIs should also ensure that housing micro-finance suits their strategy from institutional and financial perspectives. Bandyopadhyay Arindam and Saha **Asish (2011)** in their article studied they focused that the importance of borrowerspecific characteristics as well as local situation factors in determining the demand prospect as well as the risk of credit loss on residential housing loan repayment behavior in India. They used 13,487 housing loan accounts (sanctioned from 1993-2007) data from Banks and Housing Finance Cos (HFCs) in India. This paper made an attempt to find out the crucial factors that drive demand for housing and its correlation with borrower characteristics by using a panel regression method and logistic regression.

Naveen K.Shetty and Dr.Veerashekharappa (2009) studied the significance of microfinance in achieving money related incorporation. The paper concentrates on effect of the expanding hole sought after and supply of money related administrations in India which has prompted the expanding populace of the nation to be avoided from the formal budgetary credit framework on housing advance.

Talwar (1996) in an article on the present saving money situation and the requirement for an arrangement change, opines that a noteworthy concern tended to by managing an account segment change is the strengthening of the budgetary wellbeing of banks. The presentation at prudential standards is better money related order by guaranteeing that the banks are aware of the danger, benefit of their loan portfolios.

Boyd (1994) the study closes on rate of interest charged on advances, enthusiasm on bank accounts, notoriety. All these interest have played an essential part for customers and money related execution of a bank in business sector. However, customers likewise mind other criteria, for example, the amount of agreeableness of representatives, item, online offices, paper work and postliminary.

Rangarajan(1988) Remarks that division of banks credit for gainful reason in vital for financial improvement. Banks are more unbending in loaning exercises and along these lines meriting and poor individuals are not getting budgetary help. New measures are key to guarantee that advance achieve meriting hands.

Leelamma Kuruvilla (1999) tosses light on National Housing Policy and newactivities in housing money. She proposed that the adjustment in the lawful casing work, rearranging the strategy for housing money and the dynamic contributions of the Government in the housing division will moderate the housing issue.

Mathurn (1993) opined that the money related weight of interest in housing is by and large substantial when the proprietor does not have adequate assets accessible to pay for the site and the whole cost of development. Consequently, he should make game plans to acquire reserves from some different sources.

Karthik. G. (1998) in his study about the Housing and Development corporation and national housing bank argued that profitability and growth of housing finance in India is largely based on the development and introduction of new schemes matching the economic profile of the borrowers. This study suggested improvement in schemes is highly essential for the growth of housing finance in India.

Vidhayavathi. K (2002) in her study evaluated the performance of housing finance institutions on certain selected business parameters as well as through an opinion survey over the home loan seekers and concluded that apart from interest rate advertisement, service quality, courtesy and speed of service are certain other important dimensions affecting the growth of housing finance industry.

Objectives of the Study

- To understand the various phases of growth and development
- To take empirical study on Indian home loan Industry
- To study the satisfaction level of customers while dealing with the banks.
- To study the problems faced by customers in obtaining the home loans.

Methodology

The secondary data have been considered for the present study

Structure of Housing Finance in India

Indian Housing Market can effectively be divided in to three types:

a) A legal private sector which caters for the higher and middle income groups.

b) Public Sector Housing for State employees and a limited amount of social housing for the poor.
c) The unregulated sector, largely comprising squatter settlements and slums,
generally in which about 30 million people live.

Phases home loan industry

Phase-I	Before 1970	Government Domination
Phase-II	1970-1980	HUDCO and HDFC Establishes
Phase-III	1980-1990	Establishment of NHB
Phase-IV	1990-2000	Liberalization of Interest Rate
Phase-V	2000 to Present	High Growth

The first phase began before 1970 when the sole provider of any house building support was the Government of India(GoI) through its various social schemes for public housing. The government implemented these schemes through state housing boards which were responsible for allocating serviced land and houses to individuals based on the principles of social equity.

The second phase starts with the establishment of the public housing company,
Housing and Urban Development Corporation (HUDCO). HUDCO was created to assist and promote housing and urban development programs with government agency. HUDCO still plays an important role in implementing government initiatives such as the Valmiki Ambedkar Awas Yojna which was launched by Government ofIndia(GoI) in 2001-02 to provide shelter or upgrade the existing shelter for the people living below poverty line in the urban slums. Another important private player, Housing Development Finance Company (HDFC) was established in 1977. HDFC pioneered in individual lending, based on market principles.

HDFC today is one of the largest home loan providers of the country and its success displayed that financing homes can be a very profitable business.

The third phase covers the decade of 1980s, which is marked by the establishment of the country's housing finance regulator - National Housing Bank in 1987. The era also involved the government in directing various agencies like insurance companies,

commercial banks (Under priority lending requirements which allowed banks to allocate 1.5% of their incremental deposits to housing under RBI guidelines.), provident funds and mutual funds to invest part of their increment sources on housing. Two Insurance companies, LIC and GIC, startedsupporting the sector both directly through their newly established housing finance companies and indirectly by investing a proportion of their net accretions in socially oriented schemes.

The fourth phase is the era after liberalization and is characterized by dramatic changes in pricing of loans. Before 1994, the pricing of home loans were regulated by the NHB based on a differential rates charged according to the size of the loan. This policy was amended in 1994 and providers were free to charge market rates for the loans above 25,000. The fourth phase saw a dominance of fixed interest rates, but variable rate offers started emerging at the end of the decade.

The fifth Phase of rapid growth in the sector started after the millennium. Home loan disbursements rapidly grew during the first few years of this phase. The lower interest rate regime, rising disposable incomes, stable property prices and fiscal incentives made housing finance an attractive business. Home loan disbursements grew to 7,68,191.90 million in 2005 from 1,47,012 million in 2001. The year 2003 witnessed an annual growth rate of 76% in loan disbursements.

SUGGESTIONS

The study suggested that Private bank Sector considered the importance of SERVAQUL Model to work efficiently and make its customers satisfied. Few grey areas need to be looked upon so as to capitalize the market segment. If they could do this it will create confidence among the customers and the bank can have better access and coverage to clients in the market. Depending upon the same it can be said that if Private bank can perform well they have a simplified financing and repayment system so that confidence in bank services can be developed.

CONCLUSION

The study communicates that independent variables namely customer satisfaction is at the utmost priority for Private Bank. The bank give utmost priority to Responsiveness i.e. timely execution of task in form of grievance redressing and feedback system. Other than that Credibility, reliability and accessibility are key to success and build a strong reputation among the customers. Finally Communication and trustworthiness can be increased to acquire the confidence among the clients of the bank. As it is observed that banks being a backbone of economy they contribute to society to a greater extend. They are custodian of investors funds and provide safety and returns to them timely. In order to render quality services and enhance customer satisfaction bank focus upon providing qualitative support to its clients and make them grow. The factors those are derived out of correlation conclude that these variables namely Reliability and Responsiveness are highly correlated and bear strong relationship. The moderate relationship is observed in Credibility and accessibility low and very low relations are with communication and trustworthiness. The regression analysis studies the impact of these variables collectively and in majority of circumstances these variables contributes towards the development of customer relationship. Hence it is concluded that banks can only grow in the market if they provide accessibility and trustworthiness in the market as they are have weak impact. The bank is suggested to go to even at the suburb level so as to avail customer benefits.

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