

## A Comparative Study of Home Loans in Banking Industry

RAPAKA NIKHIL KUMAR<sup>1</sup>, G. SRINIVAS<sup>2</sup>

<sup>1</sup>PG Scholar, Dept of Management, Teegala Krishna Reddy Engineering College (Autonomous), Medbowli, Meerpet, Hyderabad, Telangana, India.

<sup>2</sup>Assistant Professor, Dept of Management, Teegala Krishna Reddy Engineering College (Autonomous), Medbowli, Meerpet, Hyderabad, Telangana, India.

**Abstract:** In today's world, shelter is an essential asset and a fertile investment. Housing is one of the basic needs, along with food and clothing. It is the dream of every person on earth to have their own home. However, it is a large expense and cannot be funded from the family's normal monthly income or savings. To meet the need, the individual is looking for alternatives that offer financing options to make the dream come true. Banks and other financial institutions provide the financing option (housing loan) for those looking for an apartment. Home loan means a lump sum borrowed from a financial institution or bank for the purpose of building, repairing or buying a new home. The bank offers fixed-term home loans to credible customers that also have an adjustable or fixed interest rate and payment terms. India is home to millions of middle-class families who do not own their own homes. Hence, the Indian banking industry has great market potential for a boom in the home loan sector. The present study was conducted in the state of Telangana to determine the service positioning of home loans offered by three major industry players in the state - ICICI Bank, HDFC Bank and AXIS Bank.

**Keywords:** Service Positioning, Housing Loan.

### I. INTRODUCTION

Marketing is a process of collaborating the value of a product, service or brand to customers, for the purpose of promoting or selling the product, service, or brand. Marketing techniques include choosing target markets through market analysis and market segmentation, and positioning of the product or service. Segmentation is a process of choosing a target market to which our product or service will be delivered. The concept of positioning stems from a consideration of how a service provider desires his users to view his offering in comparison to his competitors. Positioning involves creating a distinguishing place in the minds of target customers relative to competitor products. Positioning is concerned with identification, development and communication of differential advantage that makes the services of a service provider perceived as superior and distinctive to those of his competitors in the mind of target users. There are different types of home loans available in the market to cater borrower's different needs.

**Home Purchase Loan:** These are the basic home loans for the purchase of a new home. These loans are given for purchase of a new or already built flat/bungalow/row-house.

**Home Improvement Loan:** These loans are given for implementing repair works and renovations in a home that has already been purchased by the customer. It may be requested for external works like structural repairs, waterproofing or internal works like tiling and flooring, plumbing, electrical work, painting, etc.

**Home Construction Loan:** These loans are available for the construction of a new home. The documents required by the banks or bank for granting customer a home construction loans are slightly different from the home purchase loans. Depending upon the fact that when customer bought the land, the lending party would or would not include the land cost as a component, to value the total cost of the property.

**Home Extension Loan:** Home Extension Loans are given for expanding or extending an existing home. For example addition of an extra room, etc. For this kind of loan, customer needs to have requisite approvals from the relevant municipal corporation

**Home Conversion Loan:** It is that loan wherein the borrower has already taken a home loan to finance his current home, but now wants to move to another home. The Conversion Home Loan helps the borrower to transfer the existing loan to the new home which requires extra funds, so the new loan pays the previous loan and fulfills the money required for new home.

**Land Purchase Loan:** Land Purchase Loans are available for purchase of land for both home construction or investment purposes. Therefore, customer can be granted this loan even if customer is not planning to construct any building on it in the near future. However, customer has to complete construction within tenure of three years on the same land.

**Bridge Loan:** Bridge Loans are designed for people who wish to sell the existing home and purchase another. The bridge loan helps finance the new home, until a buyer is found for the old home.

**Top up loans:** Enchasing the investment in a house without having to dispose it off to fund various needs related to Higher Education, Purchase of Furniture and Business Requirements. The maximum term of the loan is 10 years. Top up loans can give after 1 to 2 years of the final disbursement of the existing loan or upon possession/ completion of the existing financed property.

Home is a dream of every person that shows the quantity of efforts, sacrifices luxuries and above all gathering funds little by little to afford one's dream. Home is a shelter to person where he rests and feels comfortable. According to National Association of Home Builders, the housing industry as a whole contributes about 17% to 18% of the nation's GDP. The most common purpose of a home loan is to provide funds to a buyer who needs to purchase a home. Home Equity loans allow a homeowner to borrow against the difference between the home's value and the current loan balance. The demand of home loans has increased dramatically. For fulfill this purpose many banks are providing home loans whether commercial banks or financial institutions to the people who want to have a home. Part of the reason for this increase is because the accessibility of loans has gotten bigger. The Indian real estate market is expected to touch US\$ 180 billion by 2020. The housing sector alone contributes 5-6 per cent to the country's Gross Domestic Product (GDP). The number of Indians living in urban areas will increase from 434 million in 2015 to about 600 million by 2031. More than 70 per cent of India's GDP will be contributed by the urban areas by 2020. By 2028, India's real estate market size is expected to increase by 7 times .By 2028, India's real estate market size is expected to reach US\$ 853 billion, increasing from US\$ 126 billion in 2015.

The government also launched 10 key policies for real estate sector in 2016, namely

- Real Estate Regulatory Act
- Benami Transactions Act
- Boost to affordable housing construction
- Interest subsidy to homebuyers
- Change in arbitration norms
- Service tax exemption
- Dividend Distribution Tax (DDT) exemption
- Goods and Services Tax
- Demonetization
- PR for foreign investors

Loan growth has been suffering partly due to capital-starved public sector banks. Analysts expect the recapitalization of state-owned banks to fuel credit growth in the months ahead. "Following demonetization, the growth in home loans in FY2017 is likely to be lower at 16-18% from earlier expectations of 18-20%," said rating company ICRA BSE 0.00 % in a statement. "Demand from the self-employed segment is also likely to be subdued as their business volumes may have been impacted." According to Rating agency ICRA "While growth in the prime home loan segment could witness moderation, affordable housing segment is likely to grow at a faster pace than industry with efforts being made to address the supply, demand and affordability issues,".

## **II. REVIEW OF LITERATURE**

The problem of housing and housing finance has been obtaining growing attention over the recent decade in the existing literature. There have been many studies revised on

various observations on this area, few of these namely; housing is an essential element of life for most human beings polarized by Naik (1981). According to J.P. Sah (2011), "housing is not a static but a growing problem and it was cited in Manorama Year Book (1997) as the modern concept of housing does not limit the idea of housing merely to the provision of shelter and it is an in an integral part of overall policy improvements of human settlements and economic development. Krishnamachari (1980) has stated in the preamble of the National Housing Policy, shelter is a basic human need and as an intrinsic part of human settlement, is closely linked with the process of overall socio- economic development. Housing is an element of material culture, is one of such devices to overcome threats against physical elements to lives and serves as an important purpose by making the provision of shelter and portrays that housing is as an important precursor of the national business cycle. Berstain 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. (2) 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

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loan schemes. (3)R.R.Krishna and V.S.Krishna Mouty (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.

#### III. DATA ANALYSIS AND INTERPRETATION

**Table1: Socio Demographic Profile of Respondents of ICICI Bank, HDFC bank and AXIS bank**

S.No.	Socio demographic traits	ICICI BANK	HDFC BANK	AXIS BANK
1	<b>Age (years)</b>	<b>Frequency</b>	<b>Frequency</b>	<b>Frequency</b>
	18-30	23%	31%	40%
	31-43	46%	34%	32%
	44-56	21%	29%	20%
	57-69	10%	6%	8%
2	<b>Gender</b>			
	Male	56%	67%	72%
	Female	44%	33%	28%
3	<b>Marital Status</b>			
	Married	65%	53%	39%
	Unmarried	35%	47%	61%
4	<b>Qualification</b>			
	High School	15%	8%	10.50%
	Graduate	50%	57%	60%
	Post-Graduate	30%	32%	27%
	Others	5%	3%	2.50%
5	<b>Occupation</b>			
	Service	43%	30%	27%
	Businessman	35%	40%	45%
	Self-employed	10%	25%	25%
	Farmer	12%	5%	3%
4	<b>Monthly Income (Rs)</b>			
	Rs. 10000-30000	40%	36%	33%
	Rs. 30000-50000	30%	32%	40%
	Rs. 50000-70000	20%	20%	20%
	Rs Above 70000	10%	12%	7%

Table1 shows that at ICICI BANK most(46%) of respondents are between the age of 31 to 43 years, 23% are between 18 to 30 years followed by 21% and 10% between the age of 44 to 56 and 57 to 69 years respectively. While in HDFC most (43%) of respondents are between the age of 31 to 43 years, 31% were between 18 to 30 years followed by 29% and 6% between the age of 44 to 56 and 57 to 69 years respectively. In AXIS BANK most (40%) of respondents are between the age of 18 to 30 years, 32% are between 31 to 43 years followed by 20% and 8% between the age of 44 to 56 and 57 to 69 years respectively. In ICICI BANK 56% respondents are male and 44% are female. In HDFC 67% respondents are male and 33% are female. In AXIS BANK 72% respondents are male and 28% are female. In ICICI BANK maximum (65%) of the respondents are married, 35% are unmarried and in HDFC (53%) of the respondents are married and 47% are unmarried. In AXIS BANK maximum (39%) of the respondents are married, 69% are unmarried. It shows that at ICICI BANK the majority of 50% respondents are graduate and 30% are Post-graduate whereas 15% and 5% are high school and others passed respectively. While in HDFC 57% respondents are Graduate and 32% are Post-graduate whereas 8% and 3% are high school and others pass outs. While in AXIS bank 60% respondents are Graduate and 27% are Post-graduate whereas 10.5% and 2.5% are high-school and others pass outs.

Regarding the Occupation at ICICI BANK the majority of the respondents are service that is 43% while remaining three

categories that is businessman, self-employed and farmer holds for 35%, 10% and 12% respectively. Whereas on the other side at HDFC 40% of the respondents are Businessman while service, Self employed and farmer holds for 30%, 25% and 5%. In AXISbank 45% of the respondents are Businessman while service, Self employed and farmer holds for 27%, 25% and 3%. It shows that at ICICI BANK the majority of 40% respondents earned an income of Rs. 10,000- 30000 followed by the group of Rs. 3000-50000 with 30%, and the sample of 20% earned the income of Rs. 50000-70000 and above 70000 10%. Whereas on the other side at HDFC the majority of 36% respondents earned an income of Rs. 10000-30000 followed by the group of Rs. 30000-50000 with 32% and the sample of 20% earned the income of Rs. 50000-70000 and Above 70000 12% respondents. On the other side at AXIS bank the majority of 40% respondents earned an income of Rs. 30000-50000 followed by the group of Rs. 10000-30000 with 33% and the sample of 20% earned the income of Rs. 50000-70000 and Above 70000 7% respondents.

**Table2. Home Loan of ICICI Bank, HDFC bank and AXIS bank**

S.No	FACTOR	ICICI BANK FREQUENCY PERCENTAGE	HDFC BANK FREQUENCY PERCENTAGE	AXIS BANK FREQUENCY PERCENTAGE
1	<b>Type of housing loan availed from the Bank:</b>			
a	For construction	100	100	95
b	For repairing	0	0	0
c	For purchase of land	0	0	5
2	<b>Satisfied with the Interest Rate charged by the Bank on Housing Loan</b>			
a	Satisfied	65	53	70
b	Normal	10	35	10
c	Not satisfied	25	12	20
3	<b>Satisfied with the Processing Charges of the bank</b>			
a	Satisfied	60	55	65
b	Normal	25	22	10
c	Not satisfied	15	23	25
4	<b>Satisfied with the Turn-around Time that the Bank takes for Housing Loan</b>			
a	Satisfied	70	75	63
b	Normal	20	15	25
c	Not satisfied	10	10	12
5	<b>Duration taken by your Bank to sanction the Housing Loan</b>			
	1 to 2 months	70	90	90
	2 to 4 months	17	10	7
	Above 4 months	13	0	3
6	<b>Satisfied with the Collateral Securities asked by the bank on the Housing Loans</b>			
a	Satisfied	50	30	70
b	Normal	40	65	25
c	Not satisfied	10	5	5
7	<b>Overall satisfaction level with the bank</b>			
A	Satisfied	75	70	90
b	Normal	15	20	10
c	Not satisfied	10	10	10

#### IV. MAJOR FINDINGS AND SUGGESTIONS

- Majority of the customers from these three banks avail Housing loan for Construction of their Houses. It shows a growth in real estate business of the valley and there is neck-to-neck competition in the banking industry for home loans.
- Only 60% customers of ICICI Bank are Satisfied with the Interest rate of Housing loans offered being the local and old player in the valley while as almost All the customers of AXIS Bank are more satisfied with the Interest rates provided for the home loans as new entrant in the valley and plans to increase the market share that gives tough battle for the existing players in the industry.
- Majority i.e. above 60% customers of ICICI Bank, HDFC and AXIS bank are satisfied regarding the Processing Charges while as more than 20% customers of AXIS Bank Agree that the Processing Charges of their Bank are above the normal.
- Majority of the customers of these Banks are Satisfied with the Turn-around Time that the Bank takes and HDFC is leading among the three followed by AXIS.
- Majority of customers (90%) are satisfied with the HDFC and AXIS bank to get their loan sanctioned within the month while as in case of ICICI Bank above 20% customers experience to sanction their Loans in above one Month.
- Only Half of the Customers of ICICI Bank are Satisfied & rest are Neutral with the Collateral Securities asked by the bank on the Housing Loans while as Majority customers of AXIS Bank are Satisfied.
- The overall satisfaction rate of the banks reveals a picture that AXIS bank being new in the valley is gaining market share at a rapid rate and majority of the respondents are highly satisfied with the performance and the facilities provided by the bank.

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