HOUSING FINANCE BY COMMERCIAL BANKS : A COMPARATIVE STUDY

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Abstract

Today, there is a wide spread growth in the demand for recognition of housing as a basic human right. Housing is intimately connected with access to livelihood. Once a person's livelihood ensures a stable minimum level of income, access to land, infrastructure, materials and welfare of the family can quickly follow. Housing is also a dynamic process not limited to one time provision of shelter but a complex system of linkages between the family, community and the larger economic and ecological environment. Thus, shelter is a basic need of human beings. Indeed, it is essential that there should be residential privacy and other essential facilities if the dignity of the individual and life of the family to be preserved. Housing is a corner stone for economic growth. It certainly has potential to kick-start the economy. On account of this chain of back ward and forward linkage with other sectors of economy fueling the growth of over 250 ancillary industries such as Steel, Cement, Timber, Building industries especially where employment is more than the capital, there always exist a positive reality between the growth of housing and its associates. It ultimately results in increase in demand for many industries and hence increases in GDP. All the developing or developed countries give top priority to housing its people. In fact, housing provides necessary impetus to the economy as a whole. A small initiative in housing will propel multiplier effects in the economy as a whole. Housing sector is recognized as major generator of employment. Thus, it results in increase of the real purchasing power of the economy, which will result in growth of many industries such as consumer durables, watches, cycles etc. according to National Building Organization (NBO), two million housing units per year will lead to creation of an additional 10 million man years of indirect employment.
Keywords: GDP, Tax rebates, mortgage, lending institutions, curvi-linear relationship

Introduction

Commercial banks have concentrated on housing loans in the recent past as they provide a few advantages missing in other lending avenues.

Firstly, housing loans are totally secured as the mortgage on the property provides security to the loan; secondly, housing loan worth up to any level (Repaying capacity of the borrowers) provided by a bank qualifies for priority sector lending, thereby helping public sector banks to meet the mandatory priority sector requirement of 40 per cent of the advances. Thus, the banks are going in of housing finance with more vigour. Since these loans are very secured with low incidence of default, demand for housing loans has been

growing by leaps and bounds and they form a growing avenue for development of funds by banks.

According to industrial estimates, the housing finance market in India is witnessing an annual growth between 30 to 35 per cent. The RBI has reduced to risk weightage on bank loans against residential housing properties to 50 per cent from 100 per cent which effectively doubled credit disbursement capacity of the banks. The housing finance players are dropping interest rate/ fees and underwriting each other, due to the reasons that they find ways to deploy the low cost funds mobilized, in the pursuit of aggressive growth.

The home loan market has grown subsequently in the past few years. Especially during 2001- 02, the total home loan disbursement by banks and housing finance companies stood at Rs.29,359.29crore and has risen to Rs.51,672.70crore in 2002-03 witnessing a growth of 76 per cent during this period. The robust growth experienced by this segment in the last few years is expected to continue on account of several factors such as continuation of tax rebates on housing loans, relatively low real estate prices, heightened competition in the housing finance business and lack of other stable investment options for investors due to recent volatility in the money and capital markets.

Thus, there is no doubt that the market for home loans will grow strongly in a rapidly developing country like India, where middle class house holds are rising at a faster rate when compared to property prices, in general. The government has continued its thrust in housing, considering the importance of construction activity in stimulating the GDP growth. Hence the Tax rebates, which have been reducing the effective cost of borrowing for continuance of the customers with the banker. Similarly, the growing competition among institutional lenders in this line of business has also resulted in the lowering of interest rates as well as the service processing charges in housing loans. All this augurs well further continued growth of the home loan market.

Statement of the Problem

Housing sector -constitutes the fundamental building block for any thriving economy. This sector happens to be one of the largest employment generators and housing loan also has a direct impact on all the down stream industries especially in core sector viz steel, cement. Due to this, government of India has given top priority to housing finance through its direct assistance and has indirectly induced the commercial banks to provide housing loans to needy customers.

Commercial banks are aggressively marketing their housing loan product due to its attractive features like low risk weightage in calculation of Compound Annual Growth Rate (CAGR), backed by mortgage, lower default rate etc. the customers are also equally benefited with tax shelter on interest payment and easy access. In the past few years, the Indian banks have seen a remarkable growth in their home loan portfolios. Credit off take in the home loans has seen a 25 per cent annual growth for the past four years. Thus housing as an arena of growth has caught the attention of commercial banks and has also

brought in heavy competition in the housing loan market. Despite this, the future for housing finance seems to be impressive and the market is to be tapped.

The government continues its support for the housing sector with tax concessions. Both private sector and public sector commercial banks have intensified their competition in home loan market with competitive interest rates and even by narrowing their margin. In the light of this development it seems pertinent to focus a study on the performance of commercial banks in housing loan disbursements. Thus, a comparative study on the performance of housing loan finance of public sector banks is inevitable.

All public sector and private sector commercial banks are offering housing loans to cater to the needs of their costumers. The reason for this study is to compare the housing loans sanctioned by the different commercial banks in public with regard to the amount of loan sanctioned, their repayment schedule and their over all performance during the period of study. This study also helps to identify the lending players in housing finance and their relative strength in the field besides giving suggestion to improve their activities in order to make it more competitive and customer friendly. This helps the commercial banks to make necessary changes in their approach to housing finance in India.

Objectives of the Study

The specific objectives of the present study are.

1. To study the institutional housing finance and profile of select commercial banks.
2. To analyse the trend and growth of housing loan disbursement, demand and collection of select commercial banks.
3. To discuss the bankers' assessment on borrowers.
4. To analyse and compare the proportion of loan account, interest rates, fees and the like of select banks.
5. To analyse the attitude of borrowers towards lending institutions.
6. To offer suitable suggestions to the cases of customers.

Hypothesis

1. There is no significant difference in the attitude of the borrowers between three housing loan finance institutions namely CFHL, IBHL and SBIHL.
2. Age, Educational Qualification and Monthly income of the borrowers do not influence the selection of housing loan financial institutions namely CFHL, IBHL and SBIHL.

Design of the Study

The study aims make a comparative analysis of various commercial banks, their policies and schemes of individual housing finance in Madurai City. Further, it also examines the preferences and expectations of the housing loan borrowers.

In this context only few institutions are identified and selected based on their relative strength and performance. In total, only three commercial banks have been chosen for the study. The criteria for choosing were based on the number of borrowers taking loans from these major institutions which varied considerably.

To attain the main purpose of the study, three commercial banks have been selected namely, Canara Bank, Indian Bank and State Bank of India. The sample size pertaining to the preferences, expectations and problems faced by the borrowers has been obtained from borrowers who have availed housing loans. The sample size has been derived by taking into account the population and the number of loan accounts in public commercial banks in Madurai city. Again, a total of 300 borrowers have been drawn from three commercial banks based on their proportion of loan disbursements as shown below.

Composition of Sample

Bank Name	Sample
CFHL	100
IBHL	100
SBIHL	100
Total	300

Stratified Random Sampling has been used in selecting borrowers from various commercial banks after active consultation with the bank officials. The selected borrowers have been the representative samples of income, education, occupation and other major variables based on simple random sampling method from the records of selected commercial banks for the study.

In order to know the general working pattern of commercial banks in sanctioning housing loans, several rounds of discussions were held with the Regional Managers, Personnel mangers and Field officers.

Minimum and Maximum Loans

Name of Organizations	Minimum (Rs.)	Maximum (Rs.)
CFHL	25,000	1 crore
IBHL	25,000	2 crore
SBIHL	50,000	No cap

Both the CFHL and the IBHL prescribe a minimum loan amount of Rs.25000. In the case of the SBIHL also the minimum of loan is Rs.50000.

In the case of the CFHL and the IBHL prescribe a maximum loan amount of Rs.1 crore and Rs.2 crore. In the case of SBIHL a maximum loan is No Cap.

Source:http://www.confinhome.com,www.indianhousing.com and www.financial express.com.

Expenses Ratio (in Rupees)

Loan Amount Rs.	CFHL Rs.	IBHL Rs.	SBIHL Rs.
10,000	400.42	928.96	178.12
20,000	400.42	443.86	178.12
25,000	400.63	351.97	178.32
50,000	400.42	204.08	178.12
75,000	400.49	178.19	204.08
1,00,000	400.42	152.28	204.08
1,50,000	400.42	152.28	204.08
2,00,000	400.42	152.28	204.08
2,50,000	400.42	152.28	204.08
3,00,000	400.42	152.28	204.08
3,50,000	400.42	152.28	204.08
4,00,000	400.42	152.28	204.08
4,50,000	400.42	152.28	204.08
5,00,000	400.42	152.28	204.08

It could be seen from the table, the expenses ratio for the CFHL is Rs.400.49 for Rs.75,000, being the highest rate for the range of loan considered and Rs.400.42 being the lowest possible rate for other loan amounts. The rate takes from of a curvi-liner relationship because of

the presence of both fixed and variable elements. In IBHL also the rate takes from of a curvi-linear relationship because of the presence of both fixed and variable expenses. However, the charge is heavier for lower ranges, compared to lower rates for higher loan amounts. The maximum rate is Rs.928.96 for the loan amount of Rs.10,000 and the minimum Rs.152.28 from the loan amount of Rs.1,00,000. In the SBIHL, the maximum rate is Rs.204.08 from the loan amount of Rs.75000 and the minimum Rs.178.12 between the loan amount 10000 and 50000. In the IBHL and the SBIHL, both have maintained a constant rate in the collection of expenses from the borrowers.

The expenses for a loan of Rs.1,00,000 in the case of CFHL are Rs.3850, the IBHL Rs.3850 and the SBIHL Rs.2000. The CFHL collects more than the IBHL and SBIHL. For a loan amount of Rs.5,00,000 the IBHL charges only Rs.7500 as against Rs.10000 by SBIHL. Thus the CFHL charges Rs.19,250. The IBHL is the cheapest source followed by the SBIHL and the CFHL.

Amount of Housing Loan–Analysis the Variance – CFHL and IBHL

Source	df.	S.S	M.S.	F - value
Between Institutions	1	19873215000	19873215000	
Within Institution	198	1.98E 12	5998245140	
Total	199	1.19634E 12		3.035

Calculated Value of F - 3.035   Table Value of F - 3.84

The hypothesis is accepted since the calculated value of F is less than the table value. Hence, it is concluded that there is no significant variation between the CFHL and the IBHL with respect to the amount of housing loan given, at the 5 per cent level is significant.

Tests Convering IBHL and SBIHL

Amount of Housing Loan

Hypothesis "On an average there is no significant variation between the two financing institutions as far as the amount of housing loan given is concerned".

Amount of Housing Loan-Analysis of Variance – IBHL and SBIHL

Source	Df.	S.S	M.S.	F - value
Between Institutions	1	42534541100	42534541100	
Within the Institution	198	1.13E 12	5761314531	
Total	199	1.58616E 12		7.396

Calculated Value of F - 7.396   Table Value of F - 3.84

Since the calculated value of F is more than the table value the hypothesis is rejected. Hence there is significant variation between the IBHL and the CFHL as far as the average amount of housing loan given is concerned. In other words, the average amounts of housing loans sanctioned by the two institutions to the borrowers are not equal.

Tests Convering SBIHL and CFHL

Amount of Housing Loan

Hypothesis "On an average there is no significant variation between the two financing institutions as far as the amount of housing loan given is concerned".

Amount of Housing Loan-Analysis of Variance – SBIHL and CFHL

Source	df.	S.S	M.S.	F – value
Between Institutions	1	1.14941E 11	1.14941E 11	
Within the Institution	198	1.30E 12	6929491410	
Total	199	1.48613E 12		18.245

Calculated Value of F - 18.245 Table Value of F - 3.84

Since the calculated value of F is more than the table value, the hypothesis is rejected. Hence, there is significant variation between the SBIHL and the CFHL as far as the average amount of the housing loan is concerned. In other words, the average amounts of housing loan sanctioned by the two institutions to the borrowers are not equal.

Scores obtained for the seven components to measures the "attitude of borrowers lending banks"

On the basis of the overall mean score X, the IBHL can be ranked as the most preferred agency (3.7307) followed by the CFHL (3.7079) and the SBIHL (3.0192). The IBHL is regarded as the most preferred bank. Borrowers judge IBHL as the best regarding four

Components	Scores Obtained by		
	CFHL	IBHL	SBIHL
Procedures and formalities followed at the time of sanctioning the loan	3.5920	3.891	3.746
Procedures and formalities followed for disbursement	3.4516	3.589	3.570
Prepayment procedure	3.5310	3.314	3.012
Expenses charged by the bank	3.8870	3.816	3.389
Customer service offered by the bank	3.8911	3.918	3.241
Maximum repayment period	3.782	3.696	3.721
Cash collection service	3.821	3.8911	3.801
Overall Average Score X	3.7079	3.7307	3.4971

components, "Loan Sanctioning Procedure" (1), "Prepayment Procedure" (3), "Customer Service" (5) and "Cash Collection Service" (7) CFHL rating is poor in "Disbursement procedure" (2). For the two components that IBHL is in between the SBIHL, that is the Maximum repayment period with score value 3.696.

The CFHL is neither regarded as the most preferred Bank nor the least preferred bank. It is rated as the best with reference to three factors' "customer service offered" (5), "Expenses" (4) and "Cash collection service" (7). The CFHL stands next in the case of one factor namely "maximum repayment procedure" (6). For the remaining three factors relating to "loan sanctioning procedure" (1), "pre payment procedure" (3) and "Disbursement procedure" (2) the records are very poor with score of 3.5920, 3.5310 and 3.4516. Hence, it can be concluded that the CFHL needs attention to "loan sanctioning procedure", "prepayment procedure" and "loan disbursement procedure".

The SBIHL performance is realy satisfactory as it is able to secure the maximum score in four out of the seven components. For two components, the SBIHL is in the medium

position and in only one component it is poor. Hence it can be concluded that the SBIHL deserves attention with reference to the maximum repayment period, prepayment procedure and expenses.

The analysis revealed that among the average loan disbursed by the select bank, a highest average amount was given by Canfin Home compared to other two banks during the study period. But a high stability was found for disbursement in SBIHL as it has minimum value of co-efficient of variation (56.73 per cent).

The significant trend co-efficient were observed in all three select banks regarding the disbursement of loan. The highest growth rate was found in disbursement of loan in CFHL. It is followed by SBIHL.

Regarding the demand of housing loan, the average demand was found high in CFHL compared to SBIHL and IBHL. A stability in demand was found in SBIHL followed by CFHL.

The trend analysis, revealed that the trend co-efficients of demand of housing loan were statistically significant and positive in all three select banks. A high growth rate of demand of housing loan was observed in CFHL during the study period.

The analysis relating collection/recovery of loan inferred that a highest recovery of housing loan was found in CFHL compared to IBHL and SBIHL. A high fluctuation in collection was found in IBHL as per co-efficient of variation compared to other banks during the period under study.

The trend co-efficient and growth rate was found high in CFHL and they were statistically significant.

Regarding the assessment of borrowers, prior to sanction of housing loan, the banks have assessed the borrowers, creditability interms of their capacity to repay, reliability of the documents and related papers.

The verification of field and assessment of property have been carried out by the banks.

Further, banks have classified the borrowers, into high risk profile and negative business profile. Apart from these bankers have given a high priority to the customers who are salaried both Government and Private. It is followed by self-employed and businessmen.

The bankers have identified the politicians, profile and advocates as high risk profile customers.

The analyses revealed that the quantum of loan was determined by all the three banks on the basis of the capacity to repay the customers.

In the case of SBIHL a maximum of 80 per cent of estimated cost of construction has been granted. But other banks (CFHL and IBHL) have no such restriction.

All the banks demanded the equitable mortgage of the property by the deposit of title deeds.

A collateral security as well as guarantors may be required as additional security for housing loan.

The rate of interest charged by all the three banks are found to be similar but the different rate of interest was charged in different slobs of housing loan.

The analysis showed that in all the three select banks have followed a very clear cut rules instructed by central bank regarding the mode of disbursement.

A long-term EMI (10 to 20 years) has been permitted to the housing loan borrowers.

The expenses incurred was varied depend on the amount of loan made use of. The usual expenses are entrance fee, legal opinion fee, processing fee and margin money.

The commitment ratio for Rupees one lakh loan was found high in SBIHL (Rs.333.49) compared to IBHL (Rs.206.32) and CFHL (Rs.164.47).

The anlaysis revealed that out of 300 sample borrowers, majority of the respondents (47.67 per cent) belong to the age group 30-40 years.

Nearly 45 per cent of them are graduates followed by (36 per cent) upto S.S.L.C. Majority of the borrowers (46.37 per cent) are Government employees followed by Quasi-Government employees (17.67 per cent) and private sector employees (13.33 per cent).

Nearly 71 per cent of the borrowers are having a monthly income of Rs.25000 and above.

Out of 200 borrowers, 46.67 per cent of them are having assets holding of Rs.5 lakhs and above.

Regarding the liabilities of borrowers, nearly 16 per cent of the borrowers have no liabilities and nearly 44 per cent have less than 2 lakhs liability.

The analysis of the opinion regarding rate of interest that nearly 50 per cent of there opined the normal interest rate changed by the select banks majority of the borrowers fact that the cost of serving is normal and inspection method is moderate.

Regarding the general opinion, a majority of the borrowers in all three select banks felt that performance is satisfactory.

The formulated null hypothesis, "there is no significant variation between the institutions as far as the amount of housing loan given is concerned", has been accepted for CFHL and IBHL and it has been rejected between IBHL and SBIHL and SBIHL and CFHL.

The chi-square analysis revealed that age is independent of influencing CFHL and SBIHL but age is an important factor to chose IBHL.

Regarding the educational qualification it does not depend on choosing CFHL, IBHL and SBIHL.

Monthly income is an important factor for influencing the lending institutions. But asset position is independent of the choice of bank.

The attitude of borrowers towards lending institutions

The following seven components were identified for the present study.

1.   Procedures and formalities followed at the time of sanctioning the Loan
2.   Procedures and Formalities followed for Disbursement
3.   Prepayment Procedure
4.   Expenses Charged by the bank
5.   Customer Service offered by the bank
6.   Maximum Repayment period
7.   Cash Collection Service

The analysis of overall rate scores revealed that the IBHL is the most preferred bank according to the opinion of the borrowers regarding the statements "Payment Procedures", "Customers Service" and "Cash Collection Service" CFHL rating is poor in disbursement.

The analysis of level of attitude of borrowers revealed that out of 300 borrowers, a majority of them (90 per cent) belong to medium level of attitude in all the select banks.

Conclusion

For millions the sky is the roof under which they sleep and billions dwellers in unsafe and unsanitary settlements where the basic facilities are conspicuous by their absence or chronic inadequacy to every citizen towards the aspect of social responsibility. Providing housing facility to every member of the society is one of the basic obligations of the government towards the society. Therefore, steps should be taken by the government to increase the operating efficiency of banks in providing housing finance. Long term funds may be made available liberally to these banks providing housing finance which would enable these banks to provide a safe shelter to billions of people. This will enable the nation to find a place in the list of developed nations with in a short time period.

Suggestions

The following suggestions are made to speed up the housing loan   institution to achieve integrated housing development in the country.

- One of the necessary pre refinance for healthy growth of housing is a robust system for credit documentation which would also minimize the follow up procedures.
- The supporting documents that help the banks to reduce their non performing assets are the collaterals. The private banks do not insist on collaterals and they lend against the security of prime property. A majority deterrent to the business segment has been the compulsory submission of income tax returns. Some public sector banks have not insisted on these documents and hence have attracted the self employed and business segment. Therefore, a uniform practice needs to be adopted for documentation and collaterals.
- Through efforts were taken to reduce the processing time, banks normally take 8 weeks to process the loan application. Therefore reduction in processing time should be given

proper attention and priority as speeding up the loan processing will benefits both the borrowers and the banks.

- The processing fee may be reduced or deleted for the purpose of promoting housing in an accelerated manner.
- Introduction of new schemes, provision of add-on benefits would enable the banks to lure and retain customers until closure or repayment of loan.
- The financial products for each borrower can be customized according to the needs and demand of each customers. This will in turn helps the banker to maximize the satisfaction level of the borrowers and thereby reduce credit default and the risk of preclosures.
- Uniform practices needs to be adopted by both public as well as private sector banks regarding the norms and conditions for pre payment and rescheduling of loans.
- Home loans should be linked with insurance cover which would cover the risks inherent in home loans. Though this cover is offered by the banks, still majority of the borrowers are unaware of it. Therefore, it should be made mandatory that the insurance coverage is compulsory for availing home loans.
- Most of the borrowers have select their banks for their housing loans based on recommendations made by their friends and relatives. Therefore, the banks should resort to advertise in multi medias viz., TV channels and FM radios which would enable them to have a wide coverage and also enable them to reach the untapped segment so and to expand their activities on a large scale.
- The youth need to be targeted because of their strong purchasing power. The study reveals that majority of the borrowers fall in the age group of 36 to 45 years. Therefore new policies and innovative schemes that would benefit the young borrowers must be framed.
- Home loan borrowers have opted for home loans mostly upto 85 per cent of the cost of the property. The loan however does not cover the entire cost of construction / purchase. Therefore, steps must be taken to cover the full lost or the maximum loan eligibility may be raised to 90 per cent of the proposed cost.
- The procedures for providing loans may be simplified, especially for the lesser educated so that they are not confused by the logical terms used and asked at time of approaching for loans.

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