CHAPTER-5

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There is a great disparity in terms of requirements of home loans as people of Himachal Pradesh have diversity in terms of lifestyle and occupation which also has a influence on the quality of life. It is due to this fact that amount of loan and terms of seeking the loan differ variedly. It is pertinent to mention that Shimla city which is the area of present research, has remained the place of historical relevance in point of view of tourism which has resulted to different pattern of living. Some customers are thus self employed hotel owners and majority are also government employees Shimla being the state capital of Himachal Pradesh. In this chapter an attempt has been made to analyze the results obtained from the survey carried out.

5.1 SHIMLA:

Shimla is the capital city of the Indian state of Himachal Pradesh, located in northern India. Shimla is well known as a hub for India's tourism sector. It is among the top 10 preferred entrepreneurial locations in India.

In 1864, Shimla was declared as the summer capital of British India, succeeding Murree, northeast of Rawalpindi. After independence, the city became the capital of Punjab and was later named the capital of Himachal Pradesh. Shimla came into existence from 1st Sept, 1972 on the reorganisation of the districts of the state. After the reorganisation, the erstwhile Mahasu district and its major portion was merged with Shimla. Its name has been derived from the goddess Shyamala Devi, an incarnation of the Hindu goddess Kali. As of 2011 Shimla comprises 19 erstwhile hill states mainly Balson, Bushahr, Bhaji and Koti, Darkoti, Tharoch & Dhadi, Kumharsain, Khaneti & Delath, Dhami, Jubbal, Keothal, Madhan, Rawingarh, Ratesh, and Sangri.

As a large and growing city, Shimla is home to many well-recognized colleges and research institutions in India. The city has a large number of temples and palaces.
Economy

Employment is largely driven by the government and tourism. Education and horticultural produce processing, comprise most of the remainder.

Demographics

As per data of 2011 census Shimla urban agglomeration had a population of 171,817, out of which males were 94,797 and females were 77,020. The literacy rate was 94.14 per cent.

The city area has increased considerably along with passage of time. It has stretched from Hiranagar in the south to Dhalli in the north and Tara Devi in the south east to Malyana in the north east, respectively. As per the 2001 India Census, A floating population of 75,000 is attributed to service industries such as tourism. The largest demographic, 55%, is 16–45 years of age. A further 28% of the population are younger than 15 years.

5.2 FINDINGS OF ANALYSIS OF SIMPLE TABLES:

The findings of analysis of simple frequency tables may be summarized as follows:

1) About 44% of the respondents are middle aged, i.e. 30 to 50 years of age.

2) 50% were below 30 years of age.

3) The sample was dominated by males. (73%).

4) Exactly 37% of the respondents were self employed, while 53% were from service class.

5) The maximum number of respondents (39%) had annual income of 4 to 6 Lakhs and about 34% of the respondent had income between 2-4 Lakhs.

6) 67% boorowers took loan from public sector banks and 33% from private sector banks.
7) 46% customers took loan between 5-15 Lakhs. 17% between 15-25 Lakhs. Smaller cities may have smaller loan sizes however Shimla also has a higher cost of construction because of hilly construction.

8) Service level at the banks suggests a majority 46.27% have rated public sector banks for providing excellent services compared to 18.18% in private sector. Also a large proportion of 33.3% among private sector have reported average service quality. Thus it is analysed that in the selected area of present research public sector have been able to provide better services in comparison to private sector banks. Public sector bank employees are better trained/selected also are typically more stable than their private sector counterparts.

9) One of the key considerations is the working hours of the banking institutions which influence customers. The private banks tend to be more cooperative or are thought to be customer centric. However customer of the research area have viewed it differently as 22% of the respondents of public sector banks consider services as excellent compared to 6% respondents of private sector banks in relation to working hour of the banks.

10) The private sector bank/company may be single product company such as HDFC in housing loan so the staff may be well trained about the products because they have to deal with only one product/scheme i.e. home loan. In public sector bank a same employee may have to deal with several products including home loans so they may lose out on any recent changes introduced in the product. Thus we see a private sector employee may know the product better whereas the public sector bank employee has to focus on deposits, mutual funds, house loans and car loans all at the same time.

11) It is analyzed that the staff in public sector banks is aware of the rules and regulations much better than the private sector. This may be attributed to their better selection by way of exams and training.
12) Awareness of the staff influences their behaviour which is reflected through the response with their customers. However private sector banks are perceived to be more responsive to the customer with 78% respondents suggesting good, very good and excellent against those of 71% of public sector banks. The private banks respond faster to a customer on arrival than a public sector bank. Typically they may even have to stand in lines to get basic functions such as filling up of passbooks in a public sector bank.

13) The sanction disbursement time perceived by the customer is faster in case of public sector banks. In smaller cities the branch network strength of public sector is better. Also decision making is being done within the city itself as compared to private sector wherein they have a HUB concept e.g. most private sector sends the cases for approval to Chandigarh thus decreasing their response times. It is also observed smaller business units are often sidelined at the hub/branch level impairing the functioning of the branch/service centre and decreasing sanctioning disbursement time flows. Against the average scale 30.30% respondents have responded that the private sector banks took average time in sanctioning a loan.

14) The public sector banks are more transparent when sharing the details of the customers loan accounts and also the various scheme details.

15) Private sector banks are perceived as very good in offering latest technological facilities to the customer. Because of a robust technology orientation and smaller number of branches private sector is able to bring the latest technology related to internet and mobile banking on the table. Thus in this case we see the private sector is a dominant technology based player.

16) Most banks are able to offer a basket of financial products however single product companies such as HDFC are unable to do so as they are unable to open bank accounts. Most crosselling is also done on behalf of sister companies and not its own products.
17) Older public sector banks are better located in the town as they have old premises located at prime locations also there rents are at time are much less.

18) Both public and private sector banks are perceived to be having almost similar sanctioning procedures however the private sector banks are perceived to have lesser formalities particularly in case of self employed customers.

19) The important reasons for availing the home loan were “to get relief in income tax”

20) It was found that many respondents were account holders of the bank concerned and most of them were holding their account as salary accounts.

21) Interest rates are the most preferred attribute when selecting a home loan product followed by the repayment period. Banks in recent times have come up with 30 years products. Security demanded is the third major concern with customers at times other than title deed a person may be asked to deposit a personal guarantee also.

5.3 SUMMARY AND CONCLUSIONS BASED ON $\chi^2$ CHI SQUARE TESTS:

The associations between different variables using the chi-square test $\chi^2$ was seen in the following manner.

1) There is a significant association between age of the borrowers and loan amount taken. A 15-20 lakh loan was primarily taken in the age group 30-50 years. Younger age group also would like to own homes rather than pay rents.

2) No significant relationship between address of the borrowers and loan amount taken. The areas were rural and urban however since it was Shimla city the rural area was primarily located close to the urban centres and thus no major relationship was found.

3) There is a significant association between gender of the borrowers and loan amount taken
4) There is a significant relationship between occupation of the borrowers and loan amount taken. Higher loan amounts taken by government employees and salaried employees. The salaried employees were the ones getting the loans easily from the banks perspective because of a better credit score associated with them. They also wanted to take the loan so as to avail the tax benefits.

5) There is a significant relationship between income levels of the borrowers and loan amount taken. Higher income level borrowers were availing tax benefits by taking home loans.

6) There is no significant association between type of the bank (public and private) and loan amount taken.

7) There is a significant association between the type of bank (public and private) and age of the customer. Older age groups preferred the public sector banks. Younger people were more likely to be associated with the services offered by new age private banks. The older generation has its salary accounts in the old public sector banks and trusts them more.

8) There is a significant relationship between the type of bank and address of the customer. Public sector banks have a better reach. They are present in both the urban and rural destinations.

9) There is a significant association between the type of bank and gender of the customer.

10) There is a significant relationship between the type of bank (public and private) and occupation of the customer. Government employees have their salary accounts in the public sector banks thus they preferred the public sector banks for availing loan facilities as well. Certain branches of banks such as SBOP and PNB have been opened in the premises of the government institutions such as the secretariat. This was to offer a better access to the customer.
11) There is no significant association between the type of bank and income levels of the customer.

12) There is a significant relationship between reasons for taking a home loan and age of the customer. They have a shortage of funds at the younger age levels and also intend to buy properties for returns rather than going for paying high monthly rents.

13) There is no significant association between reasons for taking a home loan and address of the customer.

14) There is a significant association between reasons for taking a home loan and gender of the customer.

15) There is a significant relationship between reasons for taking a home loan and occupation of the customer. Typically salaried employees were taking the loans because of the tax incentives. They also felt that property was a better and safe investment.

16) There is a significant association between the reasons for taking a home loan and income levels of the customer. Higher the income levels there was a need to save tax by taking home loans.

5.4 FINDINGS, SUGGESTIONS AND RECOMMENDATIONS:

1) Time taken for sanctioning a loan It was found that in the case of public sector, the time taken for sanctioning loan was perceived to be shorter by the customer. Shorter than the time taken by HFC. Though the claims of HFC were to the contrary. It was however seen that in smaller centres such as Shimla which had the sanctioning authorities sitting at Chandigarh it was not a priority/importance for them to sanction loans on time because of these centres being smaller in size and average loan sizes also being smaller. However the public sector had the entire processing being done at Shimla and had no such biases in their system.
2) **CIBIL reports** In quite a few cases CIBIL as report was basis for rejection of loan, but use of the same needs to be exercised with caution in smaller cities Shimla (people aren’t) computer savvy and even if they are told to interact with CIBIL directly using control numbers to verify their reports it becomes increasingly difficult for them. If a small cheque bounce or credit card reports are missing than reasons need to be checked into and discretion used.

3) **Interest rates** Smaller number of customers had selected private sector players because of comparative higher rates of interests. The cost of funding for a HFC (HDFC) is typically higher (in some buckets) they also do not have access to large corpus of low cost saving account deposits at a much lower interest rates like a bank(SBI). To maintain profitability and requisite spreads they charge higher interest rates and think they would be able to differentiate on customer service however off late as seen in the study dedicated cells have been opened by SBI and PNB dedicated towards home loans and have been providing exemplary customer services coupled with better interest rates. The teaser product innovation was done by SBI first followed by all other institutions later this has resulted in better customer satisfaction and increasing market shares for these fine organisations.

4) **Consumer complaints** A majority of Public sector customer were able to address their customer complaints in a methodical and mature manner. The private sector though had complaint handling processes in place could not handle complaints well. Primary reason being average age of employees being less and also inexperienced staff at the frontline backed by a overworked middle management who had customer complaint management as last priority.

5) **Reading application forms** Very few customers read the loan application form thoroughly before signing it. In a majority of such cases, the reason for not reading the entire application form was that it was filled up by an agent/Bank employee. The application forms should be in vernacular as well and shorter ideally filled by the customer to apprise him of all the conditions of the bank.
6) **Repayment mode** HFC have shifted to the ECS mode they not having access to the customers saving account or not being a bank. Public sector is mainly focussing on SI and ECS as a repayment mode.

7) **Cross selling** The HFC customers suggested that the bank manager should not force the customers to take life insurance policy at the time of home loan disbursement. Bank/housing finance company is advised not to mix life insurance business with housing finance. Excessive Cross selling by private sector is undertaken.

8) When a cross selling is done a lack of guard by appraising authorities is also displayed by overlooking certain weaker aspects of the loan sanctioned resulting in a low quality portfolio.

9) Overlooking norms (especially LTV Loan to value) should be avoided by housing finance companies. This may look good in shorter run but might expose the entire system to risk. Adding back depreciations to calculate incomes, looking at bank account statements might add some fancy products to the portfolio but what percentage of the business is put under such products need to be monitored.

10) It was also suggested that sanction and disbursement process should be timely and transparent. At time of sanctioning even in a hub system the private banks should give due care to cases from smaller business centres by not just looking at loan amounts (which any way will be lower because property prices may also be lower in smaller cities) but keeping customer service as a priority.

11) It is observed that during the research time, certain public sector banks were not using facility of verification of CIBIL score. Because of this, bank has sanctioned housing loan to customers who have committed default in previous advance taken. To avoid this, it is advised that all banks should have practice to verify CIBIL report before sanctioning any loan.
12) A differential rate can also be offered to customers based on their occupations for example self employed may be charged a little higher rate of interest than the salaried. If their instalments are regular over a particular initial period they can then be brought at par with the other borrowers.

13) A good CIBIL score should also be used to create a differential rate product by the banks, a person with a good CIBIL score should be rewarded by offering products with lower interest rates and people with minor errors or omissions in CIBIL scores should be altogether be rejected from the financial system but may be offered a higher interest product because of a slightly higher risk involved.

**Home Loans and Borrowers**

Home loans may seem simple but for a first time borrower its a complex issue. Selecting a product attitude of the bank employees is all a part of the process for the hapless customer who has a time line to meet.

Processing fee is charged @.5% to 1% of the loan amount and the same gets deducted even if the application is rejected. The reasons could range from educational qualifications, income levels and negative CIBIL reports.

Sometimes the debate can happen on loan amount sanctioned, the things that are taken into account are monthly income, past payment records, nature of employment etc.

Technical evaluation reports: The bank has its own experts for legal, technical and financial appraisal of the property in question. Evaluations are done on their own parameters and not on some universal or set parameters resulting in variations depending upon the institutions. Title deeds have to be submitted by the borrowers well in time, however cautions need to be exercised by institutions and borrowers at the time of balance transfers from one bank to another and also sale purchase cases. Ideally a
registered mortgage procedure should be followed certain states do not have any charges for doing a registered mortgage.

5.5 SUGGESTIONS TO BANKS AND HOUSING FINANCE COMPANIES:

The consumers' satisfaction are driving forces for surviving in present century. The Indian housing finance sector is crowded with players of all sizes and nature. Due to not much change in interest rates, the interest rates no more are the only differentiators thus customer perception towards home loans need to be judged also the customer satisfaction plays the role of a differentiator.

The customer' satisfaction has been conceptualized in several ways. It consists of customers' expectations, performance interactions, pleasure or displeasure, and the evaluation of the benefits of consumption. The financial services companies therefore need to consider market characteristics, which consist of consumer contact.

The demand for houses has gone up due to population growth, a shift towards urbanization, rising income of the families, and the distinct trends towards nuclear families. The other factors that contributed to the demand for housing are scarcity of developed land, hike in the construction cost, and non-availability of building materials, and skilled manpower, and the highly speculative trend in the cost of land. The increasing demand for housing naturally has increased the demand for housing finance also. There is an exponential growth in housing finance market. This has prompted many new players to enter the housing finance market. These players have become very aggressive apart from the already established ones. The declining rates of interest and rebate in payment of taxes are few of those developments that have made a very positive impact of housing finance activities in India.

The above said factors have prompted commercial banks, public sector and private sector housing finance companies to become active in housing finance. These
developments have increased in an unforeseen competition among the various players and triggered an interest rate war in the housing finance industry.

The major groups of consumers of housing finance are individuals, builders, corporate and State Governments. Today, most of the consumers choose between two important sources of housing finance agencies that are Banks and housing finance companies. The lending rates of banks are comparatively lower than for housing finance companies, whereas consumers can supposedly get better consumer services from housing finance companies.

The other important considerations in selecting a housing finance institution are methods of interest calculation, documents requirement, processing time and relevant charges attached to housing finance.

The front line staff who deal with customers should have complete knowledge about the housing finance product and should be well trained to handle customer queries. The front line staff should in turn be backed by proper system and processes at the backend to support the commitments made and timelines honoured by the bank staff.

Standard operating procedures should be in place for the banks however certain inbuilt flexibility may be kept keeping regional sensibilities in mind. The outsourced personnel if any deployed by the bank whether verification agencies, DSA, Property valuators, Legal personnel and other agencies should be monitored and necessary checks maintained on them.

Sanctioning time of home loan may be faster in certain single product companies (however under the influence of crossell the applications are delayed to make a sale of another product Viz life insurance, deposits first). The advertised time in the public sector bank though is less but takes time because the person also deals in other products of the bank. The public sector has now turned a new leaf by setting up smaller cells dealing specifically with home loans which now have faster processing
times. Better products (was first to launch a teaser home loan product), also passes on the rate cut benefits to customer immediately. It has maintained one of the most competitive pricing structures and because of its reach has gained substantial market shares.

**Interest rates**

This is the most sensitive pricing issue in a home loan product. A variable rate can be offered, Fixed rate product or a mix of the two (partially fixed like the teaser rates which were fixed for the first few years of the tenure.)

Certain housing finance companies tie up with the builder to offer a subvention based product wherein builder subsidises the interest rate on behalf of the borrower for first few years/months. The customer thus gets a no PEMI/EMI scheme for first few months.

Prepayment charges should not be levied as per the directions of NHB. However in a fixed rate product or non home loan based product such charges are still being levied. Ideally if a borrower pays from his own resources no such charge should be levied.

Credit policy of Banks: Each bank has a different set of appraisal norm for appraising income levels on which the entire home loan sanctioning/amount is based. Some banks may visit the borrowers premises to ascertain his true income by way of field investigations going beyond income tax returns. Others have different ways adding back income even from bank accounts of the borrowers. Though such practices may help catching the market share in short term but in longer run may even put the banking system to risk.

Ideally people should be educated to file the income tax returns in a manner which helps them to generate wealth by disclosing the right income generated and contributing to nation's growth. The whole lot of CA, lawyers and tax consultants are
the first lot of people who need to be informed that customers need correct guidance and not sugar coated version of things which in turn leads to healthier financial system in the longer run.

With adhar coming in as an identification tool, other KYC documents need to be made absolutely necessary to avoid any systemic risks to the banking system and avoid frauds. Income appraisals from a consumer stand point need to get a little transparent instead of being left to subjectivity and prejudices of bank employees.

Some banks (mainly private banks) have developed the credit policy based on their experience. Bank has decided not to give the home loan to the staff of the police department, advocates and politicians because majority of home loan were converted in to non performing loan. Such prejudice at times with increasing income levels needs to change and in certain states like Himachal the above loan cases may be quite doable as is being done by the public sector banks in large numbers.

The research that links customer satisfaction to other business measures usually defines satisfaction as a Customer's overall evaluation of the consumption experience. The customer of a housing finance institution, if satisfied tends to stay with the institution showing his strong loyalty towards the institution. The customer perception about a banks services and products has a very strong impact on the increased performance of a housing finance institution.

The customer perception should be the main focus of any financial Services firms especially to the housing finance institution. The customer has perceived the services of State Bank of India and LIC housing finance limited the public sector players to be much better than the HDFC ltd the private sector player though it was once a dominat player.

The services of, housing finance do not reach majority of the customers in the rural areas. The rural mass should be exposed to the availability of housing finance and its benefits. This is possible by personal selling.
Another problem in the rural areas is that of clear title records. The nationalised and public sector banks again have taken the lead and instead of the equitable mortgage product, have been doing the registered mortgage loans.

The securitisation as a concept was thought to be good but the inherent risks involved with the mortgage backed securities is for all to see in the global economic crises. Indian banking system has to take a cautious decision on the same and implement the processes with adequate safeguards in place.

The regulatory bodies such as RBI and more so the NHB in housing finance should be more proactive than being reactive in nature. Sanction disbursement timeframes of all banks should be monitored closely to understand the system of all banks and benchmarks set in place. Joint training institutes of both public and private sector banks should be set up to understand housing finance better.

A real estate regulator would do the consumer good from the checking timely construction of the builders to the safety of the public money being spent on dubious housing projects at times.

To conclude we can say that the public sector has improved upon the services the study has found State bank of India to be a dominant player in the city in the home loan space along with LIC housing finance limited. The public sector was perceived to be providing better services than the private sector. HDFC ltd aided by its HDFC bank by the customers. Private banks and housing finance companies need to increase on reach. With RBI set to give more licenses for banking the customer would now be treated to a whole new range of services and products.