1.1 INTRODUCTION

1.1.1 HOUSING

1.1.1.1 ORIGIN OF THE TERM ‘HOUSING’

The term ‘housing’ is derived from the middle English word ‘house’, and from Aglo-French word ‘huce’ and the German word ‘houce’ adding ing to these words for English word ‘house’ in general. The first known use of the term ‘house’ is considered to be in 14th Century around.

1.1.1.2 DEFINITIONS OF HOUSING

“Housing is the dwelling provided for a number of people.”
- Merriam Webster Dictionary

“Housing generally refers to the social problem of ensuring that members of society have a home in which to live, whether this is a house, or some other kind of dwelling, lodging, or shelter.”
- Wikipedia- The Free Encyclopedia

1.1.1.3 HOUSING- A BASIC NEED OF EVERY HUMAN

Housing is the basic necessity of every human being along with food and water. Everyone needs home i.e shelter to have proper rest in his own feasible way and feel comfortable and live a convenient life. Home is the place where a house is poured with many relations of people and it is the place where all of them in relation stay connected throughout their life otherwise being scattered at different places. Hence, home is the medium of being connected everyday of our lives with our families where other families also can meet and spend some memorable moments altogether. House is also a place where people live together under one shelter with single name of a family. So, it is a house where the families are created and the existence of it is taken care of under only one roof. House enables the families to come together, be together and stay together. House is a place where the living and the life is poured with facilitating emotions and feelings being shared together to make a family. Housing provides the base for every member of the family to live together and share among each other different feelings and emotions as well as each
other’s experiences and ideals. This allows every member of the family to grow with each one’s pace and survive in their own life. Hence, we can say that housing teaches each one of us how to live by demonstration of it by the other elder and experienced members of family. So, housing is the bridge between our capabilities and the reality. Because, it is housing that allows us to be closer to each other and share the good as well as bad experiences of our lives which in turn leads us to the right and relevant path to success.

Housing is the place which protects us from every threats and dangers from the outside environment such as heavy rainfall, fire, wind or also extreme heat or extreme cold. It is house which allows us to stay away from ill effects of these outside dangers of the environment. Hence, housing is considered as the most primary need of a human being. Whether we talk about family and relations, or the development of our lives an living in many senses, or about the protection from dangers of outside environment, it is only housing that gives us the ultimate solution.

Each of us needs a shelter and the need for shelter keeps on growing with the growth of individual. Everyone wants to be in the better position where he/she is. A person living in a hut wants to own a room in chawl, A person staying at chawl wants to own a flat in a sophisticated building and so on. So, owning a better home is the basic requirement of current time. After all fantasying of owning a better home shows a person’s amount of hard work. Compromising with lavishness and, in particular, collecting funds steadily to pay for his fantasy. This is because no one wants to be on rental basis throughout his life even after so long hard times of life. No one can afford much for many years to transfer his residence and his address every 11 months and try to adjust himself with the new people at the interval of every 11 months.

Housing is a durable commodity which usually lasts for many years. Housing is also considered under the head bulky goods. It is a commodity which has perfectly inelastic supply. This means that the housing is a product or commodity which is geographically immobile which is immovable from one place to the other. Housing remains permanently on the place where it is built once. Such housing has economical as well as social significance. Housing is considered as the firm base of the social structure of any nation in the world. We cannot imagine the existence of ‘society’ without the existence of housing. Housing gathers the members of the society at one place to transact with each other. Housing creates the base for bearing a permanent or may be a temporary residential address for every citizen of the nation. Hence, it is
housing that provides the social status to the citizens of a nation. Housing is the medium through which all the citizens of a nation get registered with the post offices of that nation with their residential addresses.

Further, housing is considered as the criterion for the development of every individual of a nation. Normally, a house involves a living room, a kitchen, a bedroom and the required passage to travel between these compartments. One of the parameters of Human Development Index is the Standard of Living (in other words, Purchasing Power Parity of the individuals) of the people living in the country. So, expenditure on housing can be considered as one of the most important component of calculating the Purchasing Power Parity and ultimately the Human Development Index. Now, it is always observed that Human Development Index is taken as the indicator for the Economic Development of a nation. Hence, housing is the base to judge the Economic Development of a nation. Urbanization as the process of Economic Development can be achieved with the help of transformation of poor housing to the well developed housing.

So, by all the above points, housing has comprehensive scope covering all the aspects of our lives from basic need of every human to the ultimate goal of a nation, Economic Development.

1.1.2 HISTORY OF INDIAN BANKING SYSTEM

The General Bank of India is the first bank in India being established in the year 1786. The establishment of banks was continued by establishing one more bank namely the Bank of Hindustan in the year 1770 which was in force till 1832. The establishment of banks was continued after that by The East India Company in the name of The Bank of Bengal, The Bank of Bombay and The Bank of Madras established in the year 1806, 1840 and 1843 respectively. These all the three banks established by The East India Company namely The Bank of Bengal, Bank of Bombay and Bank of Madras were announced to be the Presidency Banks. After that, the Allahabad Bank was established in the year 1865. Allahabad Bank is the oldest bank in India operating till date serving in India since last 150 years.

Then in 1894, the next bank established was Punjab National Bank having its Head Quarter at Lahore. This continued with the establishment of now renowned banks namely Bank of India (1906), Corporation Bank (1906), Indian Bank (1907), Bank of Baroda (908), Central Bank of India (1911) and Union Bank of India (1919).
In this establishment, The Central Bank of India is considered as the first commercial bank which was completely owned, controlled and managed by only Indians.

In the year 1921 (considered as the year of Great Divide as per the Demographic Transition of India from first stage to the second stage and being declared as Developing Economy), all the three Presidency Banks were merged and evolved as one single unit of bank in the name of The Imperial Bank of India which was again renamed as The State Bank of India after the Independence in the year 1955. This was the first Nationalization of a bank in India.

The Reserve Bank of India Act was passed in 1934 under which the establishment of The Reserve Bank of India was done in April 1935. This is now working as India’s Central Bank.

Many more banks were established in India after 1921 (the year of Great Divide) like Andhra Bank (1923), Karnataka Bank Ltd. (1924), Syndicate Bank (1925), Dhanlaxmi Bank (1927), South Indian Bank Ltd. (1929), Vijaya Bank (1931), Bank of Maharashtra (1935), Indian Overseas Bank (937), Dena Bank (1938), Oriental Bank of Commerce (1943), UCO Bank (1943), Federal Bank Ltd. (1945), Kotak Mahindra Bank (1985), UTI Bank (now Axis Bank) (1994), HDFC Bank (1994), ICICI Bank (1996) and so on.

There are also some Acts which are passed in or Legislation that are related to Banking in India. The Reserve Bank of India Act, 1935 resulted in the establishment of Reserve Bank of India. Banking Regulation Act, 1949 which gave regulatory powers to RBI making it as the Banker to the Banks and the Supervisor of Banks in India, also it acts as the Apex Institution for Currency Note Issue in India. State Bank of India Act, 1955 as a result of which The Imperial Bank of India was Nationalized and made the State Bank of India. This was the first Nationalization of a Bank in India. After that, the State Bank of India (Subsidiary Banks) Act was passed in the year 1959 when six banks where established as the Subsidiary Banks of the State Bank of India.

The act of Nationalization continued after the Nationalization of the State Bank of India. In the year 1969, 14 more major banks were nationalized which was followed by 6 more banks to be nationalized till 1980. Hence, in all, except the State Bank of India, total 20 major banks were nationalized in India to strengthen the Financial Sector of India.
Hence, the history of Indian Banking System can be divided into three important and crucial phases in Banking in India as follows:

**Phase I** considered as the initial stage of banking in India with the event of setting up of small banks and with the time period of 1786 to 1969.

**Phase II** considered as the phase of process of nationalization of the majority of the banks operating in India being started with the nationalization of the Imperial Bank of India converting into the State Bank of India. This was continued with the nationalization of 20 banks in all since 1969 till 1980.

**Phase III** considered as the phase of liberalization in the banking system allowing entry to the private as well as the foreign banks to operate in the banking market of India. This phase included the reforms in the banking system in India resulted in the rise in the competition among the banks leading to the increase in the quality and performance of the banks. This has led to enormous hike in the supply of money in the economy with availability of variety of products and increase in the number of branches leading to expected reach of the services of the banks to even the remote regions of India. The Amendments made in the Banking Regulation Act in 1993 led the banking industry to grow at a very reasonable speed and pace.
1.1.3 MODERN TRENDS IN INDIAN BANKING SYSTEM

The trends shown by the Indian Banking System in the recent past is quite remarkable. In the view of KPMG (one of the leading providers of services like risk, financial, tax etc.) India is the strongest contender to be 5th Largest Industry in Banking by 2020 and the 3rd Largest by 2025. The report by this eminent service provider states that the Banking Sector in India is worth Rs. 81 Trillion (USD 1.31 Trillion).

There are in all 22 Public Sector Banks (including SBI and its Associates), 82 Regional Rural Banks, 20 Private Sector Banks and 30 Foreign Banks operating in India with its number of Branches all over India.

It has been observed by all of us that the banks in India has started operating with the use of the modern technologies like ATM, Debit and Credit Cards i.e Plastic Money and E-Banking, Mobile Banking. With the use of such technologies, the banking in India has become the matter of just a click on a Desktop or a Laptop or even a Mobile Screen. This has made banking quite simple and easily accessible by all. Such use of Information Technology has enabled the services like use of ATM cards at any Bank’s Kiosk, use Debit or Credit Card for many purposes, getting the Statement right from anywhere and at any time where there is Internet connection, transferring money to any bank’s account, getting Account Balance by SMS service and many more. People now can get the CIBIL score online from anywhere. This has resulted in the process being faster than before which saves a very important element of our lives i.e Time. Now-a-days, the banks have started creating their own Mobile Application so as to make the banking transactions quite easier and personalized. This has created good impression of the banks in the minds of its customers. It has also been observed that the banks have also started using the Social Media so as to attract more customers and create larger customer base.

Banking Sector today contributes 6% (approx.) in the India’s GDP (Gross Domestic Product). The banking system in India, today, has shown the tremendous growth and expansion as compared to the beginning of the era of banking in India. Then whether we speak about tremendous rise in the number of users of banking services or about number of banking and non banking services or about the number of banking products, there has been regular up gradation of these numbers. Also it has been experienced that number of new facilities has been introduced and timely upgraded with the changing scenario of technology in the world. Hence, it will not be
hyperbole if we say that the banks are been truly successful in coping up and being upgraded with the change in the technology used. As prescribed above, the technologies used in the banking system are hugely upgraded from time to time with the requirement of the time.

Now, the Reserve Bank of India is considered as the apex institution above all the banking institutions in India. Banking Regulatory Act, 1949 gave the regulatory powers to the Reserve Bank of India over all the banks operating in India. The modern structure of banking in India, under the surveillance of the Reserve Bank of India, is as follows:

![Classification of Banking System in India](www.stockshastra.moneyworks4me.com)

**Image 1.1 Classification of Banking System in India**
Source: [www.stockshastra.moneyworks4me.com](http://www.stockshastra.moneyworks4me.com)

### 1.1.4 HOUSING FINANCE

As we have seen that what is housing and what housing plays a role in the life of every individual, we can come to a conclusion that there is keen need of housing for each and every individual. Through housing, every individual share the feelings with his typical family. This is the way how an individual should live as learnt from our ancestors. This implies a dominant role of housing in the development of the individuals. The housing occupied by the individuals can be personally owned or
haired on rental basis or leased for a predetermined period or taken on heavy deposit and so on. Hence, it is clear that not all the housings are self occupied. Many of them are on other basis i.e rental or lease or heavy deposit. This shows that many of the individuals are not capable of purchasing the house property by their own funds and have diverted to many other options to occupy a housing. Now, as the time has passed, people are of the mentality to have their owned houses than the other basis. This is because people are not in the view today to migrate from one place to the other place after every 11 months or a predetermined period of time. For this now-a-days, people also have found many ways to get their owned houses. These ways include Housing Loans as a medium that allows the individuals to achieve their noble goal of owning a owned house. This has resulted in the rising need of housing loans.

Housing Loan refers to the creation of Debt with the charge on the house property on which the Debt is created. So, Housing Loan is a type of credit given by the banks to the individuals for the purpose of purchasing an owned house by putting that particular house as the security deposit against the amount of Loan. This amount starts with a Lac to the number of crores of rupees in India. Hence, Housing Loan creates burden of debt on the borrower, but on the other side it raises the level of standard of living of the individuals living. The level of standard of living is subjected to the house property belonging to the individuals in a nation. As and when such self occupied house properties’ number get boosted, there is a shift of the entire economy in the upwards trends. Hence, the event of boost in the housing finance in an economy obviously result in the boost or sharp increase in the housing ownerships resulting in the rise in the standard of living and this ultimately resulting in the development of both individuals along with the entire economy. Hence, housing finance has a very significant role in the development of an economy as a whole. The need and demand of Housing Finance in India has shown the progressive trend since past few years right from the act of deregulation of interest rates by the Reserve Bank of India. This has led to rise in the competition among the banks (Public as well as Private Sector) for their most popular product called as Home Loans. This is because among all the Loan products of the banks say Car Loan, Personal Loan, Consumer Credit Loans etc., Home Loan is the safest of these all. This is because the security or charge on which the loan is given by the banks has a very unique and much impressive feature that it never gets depreciated, it always gets appreciated which is always beneficial to
the banks. That is why the popularity and progress of the best Loan product of the banks in the name of Home Loan has become the talk of the town.

1.1.4.1 HOUSING FINANCE – DEFINITION

“The purpose of housing finance system is to provide the funds which home–buyers need to purchase their homes. This is a simple objective, and the number of ways in which it can be achieved is limited. Notwithstanding this basic simplicity, in a number of countries, largely as a result of government action, very complicated housing finance systems have been developed. However, the essential feature of any system, that is, the ability to channel the funds of investors to those purchasing their homes, must remain.”

- Mark Boleat

“Housing finance brings together complex and multi-sector issues that are driven by constantly changing local features, such as a country’s legal environment or culture, economic makeup, regulatory environment or political system.”

- Loic Chiquier and Michael Lea

Housing Finance has its integration with the development of infrastructure in a country. This is said as the Housing Finance is related directly to the building of homes for the people. As Housing Finance encourages the demand for homes among the people, it indirectly raises the demand of building these homes for the people. This is considered as the development of infrastructure in a nation. Hence Housing Finance is the link between the producers or the builders of homes and the consumers of homes. It can also be the link between the house makers’ industry and the people who purchase those houses.

1.1.5 HOUSING FINANCE IN INDIA

In recent times, there have been efforts by commercial banks and financial institutions in India so as to attract more customers by proving cheaper loans for home as a gesture of consumer friendly attitude. This is also followed by better customer services for Home Loans to existing as well as new customers. Better customer services such as easy and convenient procedure and paper work, lesser formalities, floating rate of interest and most importantly longer repayment period of even 20
years which definitely reduces the amount of EMI [Equated Monthly Installment] which has encouraged and made feasible for even the middle as well as lower middle income group to opt for a Home Loan and enjoy the rent free and permanent house and address for his valuable life. Recently banks were also directed by RBI for encouraging the home loan financing, in view of acute shortage of housing in the country, keeping in mind the current socio-economic role of commercial banks.

This has resulted in the growth of housing finance in India. The percentage of Household Debts in the Gross Domestic Product (GDP) of India is around 9% in the year 2015. This shows a very reasonable growth in the housing finance sector in India.

Following are the phases which divide the Banking Sector in India as per its amendments in the housing sector:

<table>
<thead>
<tr>
<th>Phase</th>
<th>Duration</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase I</td>
<td>Since 1970</td>
<td>Domination of the Government</td>
</tr>
<tr>
<td>Phase II</td>
<td>1970 to 1980</td>
<td>Establishment of HUDCO and HDFC</td>
</tr>
<tr>
<td>Phase III</td>
<td>1980 to 1990</td>
<td>Establishment of NHB</td>
</tr>
<tr>
<td>Phase IV</td>
<td>1990 to 2000</td>
<td>Deregulation of Interest Rates</td>
</tr>
<tr>
<td>Phase V</td>
<td>2000 onwards till date</td>
<td>Remarkable Growth of Banks</td>
</tr>
</tbody>
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**Phase I** of the Housing Finance in India existed till 1970 with the sector being in the hands of the government. It means that government was the only Housing Loans provider in India. This was done by the government through its various state authorities for Housing Finance in the name of State Housing Boards under its various developmental schemes.

**Phase II** of the Housing Finance in India remained in existence for a decade since 1970 till 1980. This was the stage when we got the public housing corporations in India for the development of the housing finance sector in India. These public housing corporations or companies were Housing and Urban Development Corporation (HUDCO) and Housing Development Financial Company (HDFC). The establishment of HUDCO was initiated so as to channelize the funds allocated by the government for housing sector in India. This is done by the HUDCO through looking after the proper implementation of the schemes declared by the government of India.
Whereas, HDFC was established to initiate the lending to the individuals, keeping in mind the same principles that are followed by the other banks in the market. Targeting the individuals for lending has proven to be the best thing for HDFC in India as it has shown a tremendous growth in the Housing Finance Sector in India. Today, HDFC is one of the biggest Housing Finance Banks in India.

**Phase III** consists of the decade of 1980 to 1990 accompanied by the establishment of the National Housing Bank (NHB) in 1987. National Housing Bank is considered as the regulator and supervisor of the Housing Finance in India. In this period, two largest insurance companies namely Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC) in India took part in the housing sector in India by establishing their own housing finance institutions called as LIC Housing Finance Limited and GIC Housing Finance Limited.

**Phase IV** consists of the decade from 1990 till the 2nd Millennium year giving the crucial role to the National Housing Bank in the first half. In this period till 1994, the housing loan rates were regularized by the NHB with the policy of charging differentiated interest rates for the different amounts and ranges of home loans. But, in 1994, when there were some amendments made in this concept, the home loan providers were deregulated from the above regulation and were left free to charge the interest rates according to the market forces for the loan amount more than 25,000.

**Phase V** commenced since the year of 2nd Millennium. This era witnessed the growth and expansion of the banks through the expansion of the home loan disbursements. This was so because the market was just passing through the results of liberalization of the Banking Industry.

### 1.1.6 RISE IN DEMAND FOR HOUSING IN MUMBAI REGION

Housing, being one of the most essential necessities of every human as discussed above, plays the same dominant role in the study area i.e Mumbai also. In the recent past, many factors have contributed to a keen rise in the demand for housing in the Mumbai region. Mumbai, being the financial hub of India, is day by day becoming more and more crowded especially in its western suburbs. This is due to migration of a huge amount of population of the other states of India as well as the
foreign countries, in search of the jobs and employment for them. So, such reasons for rise in the demand for housing in the Mumbai region are discussed below:

1.1.6.1 REASONS FOR RISE IN DEMAND FOR HOUSING IN MUMBAI REGION:

(a) **Increase in Population:**
The population of the entire Mumbai region has shown an upward trend of increase in population every year by 5,00,000 people starting from 2012 - 20 million to 2013 – 20.5 million to 2014 – 21 million. The tremendous growth of population was seen in the year 2012 as compared to 2011 which shows the rise of population from 12.5 million in 2011 to directly 20 million population in 2012.

(b) **Migration:**
Mumbai is one of the four metropolitan cities in India and also acts as the financial hub of India. This has led to attract many people of the other states of India to gather here in Mumbai for their employment needs. Hence, majority of the Mumbai’s population consist of the people with their origin from other states. This means that majority of the population in Mumbai consists of the migrants from the other states.
(c) **Split of Families:**
One more reason for hike in the demand for housing in Mumbai region is the split of families. People today or we can say that the today’s generation does not prefer the Joint Family System as they aspire for their privacy in their regular life. This has lead to the spread of nuclear families rather than joint families. Hence, the demand for housing in Mumbai region as a result of westernization in the thoughts of people living in this region has grown since the latest past.

(d) **Standard of Living:**
The people living in the urban area especially in Mumbai Region are more attracted to a better and better standard of living. This can be achieved with the help of buying a standard to the luxurious homes. Means they are more attracted to the more and more up gradation of their basic necessity viz their personal home. This requires lots of funds to fulfill this need. And off course for this requirement, there is an all time open option for them viz home loans.

(e) **Peer Pressure:**
Again in the Metropolitan Cities like Mumbai, in India, are usually attracted to raising their standard of living due to a keen reason called as their peer pressure. People living in such cities usually try to be on the level what their friends, relatives or colleagues are there. This increases the desire of the people living in such regions to own a house which is at their level of living. This obviously increases the demand for housing in such regions including Mumbai.

(f) **Home – A Basic Need of Every Individual:**
Finally, speaking about home, which is a basic need of every human being, every individual aspires to have his own house despite of his current status and availability of funds with him. Individuals who are on the rental basis, are willing to own a basis and standard house, whereas, who have their own house, want to upgrade his current house or buy a new house with better facilities or they tend towards owning a more luxurious house. This has led to keen rise in the demand of Housing in the Mumbai Region.
(g) Change in Mentality of People

In spite of migration, there is also a shift in the mentality of the people from living in a rented house to live in an owned house. This is because majority middle class people used to live in a rented house where they had to shift to different places every 11 months because none of the owner wanted to continue with the same tenant for many years. Due to this, people are now in the mentality that it is better to own a house and get a permanent residential address. But in this thought too, there is a financial issue with these middle class people. Hence by this, they are forced to go for a home loan to fulfill this goal of their life.

1.1.7 RISE IN NEED OF HOUSING LOANS IN MUMBAI REGION

There has been a tremendous rise in the customers with Home Loan Products in India especially in Mumbai region. This has been observed that due to considerable migration in Mumbai region, the requirement of Housing has been on a steep upward trend. Now-a-days, there has also been a shift in people’s mentality from renting a house to own a house. It is the demand of the recent time that the business of home loans is going to be on high in near future. So, it is obvious that Home Loan requirement tends to rise steeply. This is accompanied by different schemes offered by public as well as private sector banks so as to grasp maximum of them. Hence, among all other Loan products, Housing Loans have maximum scope to grow at an increasing rate in future. It should also be noted that the comparison between public and private sector banks may provide proper conclusion whether which one to opt while thinking of taking Home Loan.
1.1.7.1 REASONS FOR RISE IN NEED OF HOUSING LOANS IN MUMBAI REGION

(a) **Deregulation of Interest Rates:**
One of the most important reasons for rise in the Housing Loans is the act of deregulation of interest rates by the Reserve Bank of India since 1995 under the era of Liberalization. This implies that the interest rate slabs were deregulated by the Reserve Bank of India and the banks were initiated to fix their own interest rates. This was followed as a result of competition among the banking sector in India since 1991.

(b) **Reduction in Interest Rates by RBI:**
The act of deregulation resulted in increase in competition in the Indian Banking Industry. This ultimately benefited the customers of any kind of loans. As a result of this, the interest rates of home loans also reduced since 2009. Reduction in interest rates led to rise in the demand of housing loans in all over India including the Mumbai region.

(c) **Expansion of Banks:**
The banks, after the act of liberalization resulting in the entry of foreign banks, started expanding in the market in India. The banks progressively increased their branches so as to increase their reach till even the remote regions of India. Also with this, the banks are today successfully running more and more number of branches in the Mumbai region as it is a financial hub of India where all the big business tycoons are there with their homes and offices.

(d) **Entry of New Private and Foreign Banks:**
The entry of new Private Sector as well as the Foreign Banks has increased the competition in the Banking Sector in India. This has resulted in the fall in the interest rates and increase in the popularity of many loan products especially home loans due rise in need of housing in Mumbai region.

(e) **Increase in Competition:**
The competition has tend to increase in the Banking Sector of India due to the above discussed points as a result of which the interest rate has declined over a past period of time resulting in the rise in the demand of home loans.

(f) **Awareness about Tax Benefits:**

Now-a-days, people are more educated about many benefits of owning a house that too with a home loan. Home loan leads to deduction (under section 16 of the Income Tax Act, 1961) in the Gross Total Income and ultimately in the Total Tax Payable of the Borrower.

### 1.1.8 RECENT TRENDS IN HOUSING LOAN AND INTEREST RATES IN INDIA

Housing Loans in India contributes almost 9% of the total Gross Domestic Product (GDP) of India. This is a remarkable statistic with regard to the housing finance in India.

In the recent times, interest rate in India averaged 6.66% from 2000 until 2014, reaching an all time high of 14.50% in August 2000 and a record low of 4.25% in April 2009. This has led to the rate of interest charged by commercial banks from public been lowered since 2009. As soon as the RBI reduced the Bank rate as mentioned above, the Interest rate charged by Commercial Banks from Public for different Loans has been lowered since 2009. First players in banking sector to announce a 20-years period Housing Loan were the Union Bank of India and HDFC Bank. This long period Home Loans has resulted in reduction of EMIs offered by different Public & Private Sector Banks. This has led to think of buying a house now so as to fulfill their long ago dream in little easy way.

Now-a-days the Home Loans are also offered for proper maintenance or renovation of Home. Such Loans are called as Home Improvement Loan being provided by HDFC up to 85% for new and up to 100% for existing customers including cost for internal and external repairing, coloring/painting, plumbing, flooring, waterproofing etc.

Hence, the trends in housing finance in India shows an increasing trend with regard to housing debts as a percentage of GDP, total amount of housing loans disbursements, total number of housing loan customers and so on. Whereas, interest rates has shown a rise from 9.25% in the year 2009 to 11.5% in the year 2011 and
then a fall from 11.5% in the year 2011 to 9.5% in the year 2015 recently. This happened due to the Cheap Money Policy or the Cash Push Policy implied by the Reserve Bank of India (RBI) by reducing 50 basis points on interest rates in India number of times in the recent past.

1.1.9 ADVANTAGES OF HOUSING LOAN TODAY

Obtaining a Home Loan in these times is packaged with and accompanied with many financial and other benefits as follows:

A) Low Interest Rates:
Banks now-a-days comes up with comparatively lower rate of interest in this highly competitive era so as to generate a large customer base. Also banks have been offering, on customer’s wish, whether to opt for fixed or floating rate of interest.

B) Lesser Paper Work and Formalities:
The banks have also reduced the undue formalities and unnecessary procedures for sanctioning a loan. This has resulted in ease to the customers leading to better goodwill of the banks creating better perception in customer’s mind.

C) Longer Repayment Period:
Now-a-days, majority of the banks provide loans for a period more than 20 years. Due to this, the customers of Home Loan get the advantage of lower EMIs with prolonged repayment period. This has attracted even the middle income group of the society to opt for a Home Loan.
D) **Tax Benefit:**
The Income Tax Act, 1961 has stated the tax benefit of a Home Loan. Under Section 16, there is deduction from Income from House Property for the amount of Interest as well as the amount of Repayment of Loan.

1.1.10 DISADVANTAGES OF HOME LOANS

Obtaining Home Loan along with the above advantages, also consist of the following Disadvantages.

(A) **Lengthy Procedures:**
Sometimes, obtaining a Home Loan becomes the cumbersome job due to the lengthy procedures followed by the banks as a concern for following the guidelines of the Reserve Bank of India.

(B) **Floating Interest Rates:**
Floating interest rates become disadvantageous when the economy is in the boom era resulting in the hike in the interest rates in the future leading to the higher cost of borrowing for the borrower.

(C) **Time Lag for Sanctioning the Loan:**
Availing a Home Loan needs completion of certain procedures and documentation. Sometimes, it becomes difficult to a new comer for getting a Home Loan sanctioned due to his unawareness about such procedures and documentations.

(D) **Time Lag for Disbursement of Loan:**
Time lag in the disbursement of Home Loan depends upon the working of the banks which differs from the bank to bank.
1.1.11 DISBURSEMENT OF HOUSING LOAN

Disbursement of housing loan refers to issue of cheque or demand draft in favor of the party which is selling the house property. When the amount of housing loan is actually paid by the bank to the borrower, it is said to be housing loan disbursed. Before the bank disburses the amount of housing loan, the loan has to be sanctioned by the bank. And sanctioning of the housing loan depends upon follow of certain procedures and formalities to get completed while the processing of the housing loan.

1.1.11.1 GENERAL CRITERIONS AND CONDITIONS TO BE FOLLOWED WHILE APPLYING FOR HOUSING LOAN

1. First step to apply for home loan is to confirm the repayment capacity through producing all the relevant proofs of incomes namely salary slip for the last 6 months, bank statement of the last 6 months, income tax return file and so on.

2. Once, the capacity of the applicant to repay the amount of housing loan is judged, the next step is to calculate the maximum amount of housing loan on the basis of the income of the applicant.

3. The next step is to find out or calculate the actual government price applicable to the property on which the housing loan is applied for.

4. Once, the actual value of the property purchased/ constructed/ renovated is found or calculated, the next step is to calculate the maximum amount of housing loan disbursable on the basis of Loan To Value (LTV) Ratio.

5. Calculation of Loan to Value Ratio is done on the basis of the Security Margin kept on the value of the property so as to calculate the maximum disbursable amount of loan. For example: If there is a house property of Rs. 10 Lac and the Security Margin to be applied by the bank is 20% (which is normally followed by majority of the banks in India in the recent times), then the maximum amount of housing loan to be allowed will be Rs. 8 Lac.

6. So, there are two factors that determine the maximum amount of housing loan disbursable viz the Annual Income of the applicant and the Loan to Value Ratio by applying the Security Margin.
7. It is also to be considered that the amount of EMI must not be more than 50% of the Average Monthly Income of the applicant. On the basis of this, the tenure or the period of housing loan is to be determined.

8. It is also to be taken into consideration that the tenure or period of the loan must not exceed the maximum age limit set by the bank. For example: If a person takes a home loan at the age of 45 years and the bank has the maximum age limit of 60 years, then the loan tenure or period cannot be more than 15 years. It means that even though the banks allow the housing loan tenure of even 30 years, but it cannot give the loan to the applicant for the period exceeding the age limit of the bank. Hence, it is said that the tenure of the housing loan will be fixed till the maximum age limit or the age of superannuation whichever is earlier.

9. Once, these two parameters are checked, the next step is to complete the documentation work by the applicant. Following documents are required to be filed by the applicant so as to avail the housing loan:
   i. Duly completed the application form for the housing loan.
   ii. Address proof: Ration Card/ Aadhar Card/ Electricity Bill/ Maintenance Receipt of the society/ Driving License/ Voter ID/ Passport. These proofs can also be used as the Identity Proof of the applicant. The only addition to the above for the Identity Proof is the PAN Card of the applicant.
   iii. Statement of Bank Account for the last six months.
   iv. Salary Slip or Salary Certificate for the last six months.
   v. Proof of address of the business for the self employed applicants.
   vi. Proof of address of the office of the professional applicants.
   vii. Statement of the personal properties and debts of the applicant.
   viii. The copy of the acknowledgement of the Income Tax Return File with the Income Tax Department for the last three consecutive years.
   ix. TDS Certificate in form 16 from the current employer, duly acknowledged by the department of Income Tax.
   x. All the above documents of the Guarantor (if applicable).

10. Once these documents are submitted by the applicant, the next step is to judge the profile of the applicant through different details from the applicant. These details include nature of business of the applicant, his age,
his qualifications, details of employment, work experience, creditworthiness of his employer, his own creditworthiness, details of loans taken in past and repaid (if any), turnover of the past years (if self employed) etc.

11. Before going through any other procedures, whether legal or technical, the bank first checks the creditworthiness of the applicant with the help of the CIBIL (Credit Information Bureau (India) Limited) Score and the details of CIR (Credit Information Report) of the applicant so that the bank may decide whether to give the loan or not. Usually, the banks prefer the CIBIL Score of 750 and above so as to approve the loan.

12. After the CIBIL score is checked and if found adequate as to approve the loan, the property papers are verified. The title of the property should be clear and must be registered in the name of the applicant by paying the Stamp Duty and Registration amount to the Registrar. All the other relevant documents such as Occupancy Certificate (OC) and Completion Certificate (CC) of the building where the house property exists. If the applicant is not the first owner of the house property, then the chain of agreement must be produced in original with the relevant photocopies for the bank records. The building where the house property exists must be clear at 7/12 extract (utara) applicable in India.

13. The house property, in the above way must be legally and technically clear in title in the name of the applicant and the society or building where the house property exists.

14. The legality and technical clearance is approved by the experts of those departments appointed by the bank. On the basis of their report about the applicant, bank approves the loan and allots the sanction letter to the applicant.

15. Once the sanction letter is allotted to the applicant, the bank starts the processing of the housing loan through its predetermined method and principles. The processing includes the verification of all the relevant documents is done by the experts of the relevant departments such as technical, legal, accounts etc. in the processing of the loan, the images of the entire house property as well as the entire building are taken by the verification officer of the bank so as to consider the property to be in
existence and the current position of the property in case of the second hand purchase of that property. Processing also includes drawing out the CIBIL Score and the CIR from the relevant department of the government. Also the verification of the documents such as OC and CC is done by the legal and technical department of the bank from the government records of that particular property and building or the society.

16. After such verification of all the relevant documents and the house property on which the housing loan is sought, the bank disburses the loan to the applicant making him the borrower of the housing loan. The above processing and procedure usually takes minimum 20 and maximum 45 days to get the loan approved/ sanctioned and disbursed which varies from bank to bank.

17. Once the housing loan is disbursed, the applicant becomes the borrower of the housing loan of that bank and is subjected to make the payments if different charges and the amount of EMI, as prescribed in the housing loan documents, from time to time. Some of these charges are to be paid by the borrower before the approval/ sanction of the housing loan, some charges are to be paid after the approval/ sanction of the housing loan before the disbursement of the housing loan and some charges are to be paid after the disbursement of the loan.

18. These charges include the following:
   i. **Processing Fees:**
      Usually majority of the banks charge the Processing Fees of 1% of the amount of housing loan disbursed. It may vary from bank to bank but it is charged by all the banks.
   
   ii. **Administrative Fees:**
      This is also calculated as a percentage of the total loan amount. Administration Fees is charged by the bank for the compensation of the staff allotted for the processing of the housing loan.
   
   iii. **Interest Charges:**
      The actual amount of housing loan disbursed is called as the Principal Amount of the loan which is subjected to be repaid by the borrower within the predetermined tenure along with the amount of interest on that Principal Amount of loan. Hence, interest is calculated as a
percentage (predetermined) of the Principal Amount. Some of the banks follow the fixed rate of interest throughout the tenure of the housing loan and some follow the floating rate of interest on the basis of the market forces.

iv. **Legal and Technical Charges:**
   These charges are charged by the banks for the charges paid by the banks to the legal and technical experts on completion of the reports of their relevant departments.

v. **Charges for Dishonor of the Cheque:**
   If the borrower has issued number of post dated cheques to the banks for the payment of amount of EMIs, and if any of the cheques is dishonored or bounced due to any reason, the bank is liable to charge for such dishonor/s.

vi. **Late Payment Charges:**
   If the bank allow some grace period to the borrower for the nonpayment of the amount of EMI/s then after that grace period, the bank is liable to charge the charges for delay in payment of such missed EMI/s.

vii. **Pre-closure Charges:**
   Some banks charge for the prepayments of housing loans as they are subjected to bear the losses of the amount of interest on the housing loans for the period remaining after such pre-closure of the loan. Usually banks charge 2% of the amount outstanding on the housing loan.
1.2 RATIONALE OF THE STUDY

Housing Loan refers to the creation of Debt with the charge on the house property on which the Debt is created. So, Housing Loan is a type of credit given by the banks to the individuals for the purpose of purchasing an owned house by putting that particular house as the security deposit against the amount of Loan. This amount starts with a Lac to the number of crores of rupees in India. Hence, Housing Loan creates burden of debt on the borrower, but on the other side it raises the level of standard of living of the individuals living. The level of standard of living is subjected to the house property belonging to the individuals in a nation. As and when such self occupied house properties’ number get boosted, there is a shift of the entire economy in the upwards trends. Hence, the event of boost in the housing finance in an economy obviously result in the boost or sharp increase in the housing ownerships resulting in the rise in the standard of living and this ultimately resulting in the development of both individuals along with the entire economy. Hence, housing finance has a very significant role in the development of an economy as a whole. The need and demand of Housing Finance in India has shown the progressive trend since past few years right from the act of deregulation of interest rates by the Reserve Bank of India. This has led to rise in the competition among the banks (Public as well as Private Sector) for their most popular product called as Home Loans. This is because among all the Loan products of the banks say Car Loan, Personal Loan, Consumer Credit Loans etc., Home Loan is the safest of these all. This is because the security or charge on which the loan is given by the banks has a very unique and much impressive feature that it never gets depreciated, it always gets appreciated which is always beneficial to the banks. That is why the popularity and progress of the best Loan product of the banks in the name of Home Loan has become the talk of the town.

The study of literatures on the context of Housing Finance and Banking System in India, it is clear that many authors have expressed many different views with this regard. Their studies have revealed many facts of Banking System in India, the problem of NPAs with banks especially Public Sector Banks, Policies of RBI, GOI and NHB about the Home Loan, Consumer’s Perceptions regarding selection of Financial Institution, comparison of any two Financial Institutions or Banks and so on. But it is also clear that the study on comparison of Public and Private Sector Banks with regard to Home Loans has not been initiated especially with special reference to Mumbai Suburban Region. Hence, a keen study of Comparative Analysis
of Public Sector and Private Sector Banks with respect to Home Loans with special reference to Mumbai Suburban Region should be initiated so as to put forward the pros and cons of both sectors of banks for the use of the society and the banks so as to adopt the strategies which can help banks to satisfy the customers more and in future to the customers while selecting the banks on the occasion of taking a home loan.
1.3 NEED AND SIGNIFICANCE OF THE STUDY

The study of literatures on the context of Housing Finance and Banking System in India, it is clear that many authors have expressed many different views with this regard. Their studies have revealed many facts of Banking System in India, the problem of NPAs with banks especially Public Sector Banks, Policies of RBI, GOI and NHB about the Home Loan, Consumer’s Perceptions regarding selection of Financial Institution, comparison of any two Financial Institutions or Banks and so on. But it is also clear that the study on comparison of Public and Private Sector Banks with regard to Home Loans has not been initiated especially with special reference to Mumbai Suburban Region. Hence, a keen study of Comparative Analysis of Public Sector and Private Sector Banks with respect to Home Loans with special reference to Mumbai Suburban Region should be initiated so as to put forward the pros and cons of both sectors of banks for the use of the society and the banks so as to adopt the strategies which can help banks to satisfy the customers more and in future to the customers while selecting the banks on the occasion of taking a home loan.
1.4 OBJECTIVES OF THE STUDY

- To analyze the need and demand of Housing Loan in the context of the study area.
- To study various government schemes and incentive programs related to housing sector in the context of the study area.
- To make a comparative analysis of the Home Loan Financial Portfolios of Public and Private Sector Banks.
- To know the customers’ attitude towards the Home Loan Schemes while applying for the Home Loan.
- To analyze the customers’ satisfaction level while and after dealing with the Bank for Home Loans.
- To develop new strategies for the improvement of customer satisfaction level.
- To find out the reasons for Defaults in Home Loans.
1.5 HYPOTHESIS OF THE STUDY

$H_0$: There is no significant difference between the Public and Private sector Banks with respect to Customer Satisfaction Level for their Housing Loan.

$H_1$: There is significant difference between the Public and Private sector Banks with respect to their Housing Loan Financial Portfolios.
1.6 STATEMENT OF THE PROBLEM

Among all the different products of loan, Housing Loan is the most promising product to be emphasized in the recent era. It is also true that in view of the same, public sector as well as private sector banks, under the guidance of Indian Government and RBI, have been providing different incentives and schemes for home loans. Taking a home loan becomes the route for tax deductions also on the income of the customer as well as the lender.

And the recent investigators are also in view that there has been very few studies to examine the difference between public sector and private sector in connection with especially home loan segment.
1.7 METHODOLOGY

1.7.1 Primary Source:
Data is collected from the Direct Personal Interview of 500 Home Loan Customers. The Interview is to be conducted with the help of a Structured Questionnaire in a specified format followed for all customers.

1.7.2 Secondary Source:
Data collected from statistical bulletin published by various organizations’ journals, periodicals, newspapers, annual reports of the respective nationalized banks, annual reports of the Reserve Bank of India (RBI), RBI Bulletin, trend and progress of banking (annual publication of RBI), SBI, ICICI, HDFC, PNB etc. (bulletin, annual report) and all publications and reports published by respective nationalized banks annually.

1.7.3 Sample Design:
a) Sample Size:
The Sample Size is 500 Home Loan Customers from leading Public Sector and Private Sector Banks. And for secondary data collection, total 10 banks in which 5 PSBs namely SBI, BOB, BOI, Canara Bank and PNB and 5 PVBs namely Axis Bank, HDFC Bank, ICICI Bank, IndusInd Bank and KMB are chosen for analysis.

b) Sampling Technique:
The technique to be used for Sampling will be Simple Random Sampling for both Primary and Secondary Data Collection.

1.7.3.1 Universe and Sample:
Home Loan customers in the Western Suburban Region of Mumbai are the population or the universe for this study. Out of the total 1 million (approximately) home loan customers in this region, a sample size of 500 home loan customers are taken into investigation for the purpose of this study.

1.8 DATA ANALYSIS AND INTERPRETATION
The procedure which helps to make a decision and assign meaning to the collected data and could be applied to the researcher’s problem is termed as data analysis. This data becomes the source of information for group discussions, interviews, publications, reference material etc. After regular reference of the data and by exploring it again and again, patterns and insights significant to the research are sorted out to address the problem under study.

Obtained usable and useful information is the main aim of analyzing the collected data. Irrespective of the qualitative or quantitative nature of the data, the analysis helps in describing and summarizing the data, establishes relationships among variables, compare them, and understands the differences among variables and to predict the future outcomes.

Data is being analyzed using statistical software SPSS and Ms Excel. Statistical technique used for data analysis was Chi-Square.
1.9 SCOPE OF THE STUDY

- The study will help the customers to select the appropriate bank for applying for home loan with the help of above Policies, Schemes and Strategies of different banks.
- With the help of the study the banks can adopt the more attractive schemes and strategies to create larger customer base.
- With the help of larger customer base, the study will also help to improve their financial portfolios of home loans.
- The study will enable banks to overcome the deficiencies in the financial portfolios of the banks by getting more revenue from the larger customer base.
- The study will be helpful the society so as to decide whether to select which type of banks i.e Public or Private Sector Bank with the help of the customer satisfaction level and the financial portfolios of both the types of banks.
- The study will also be useful to the housing loan customers so as to take decision regarding the decision whether to retain with the same bank of to switch to the other one as per the above mentioned data.
1.10 DELIMITATIONS OF THE STUDY

There are delimitations found in every research. No investigator can claim that his investigation is complete in all aspects. Thus, the boundaries of the study are called as delimitations.

- The authenticity of this research depends upon the honesty of the respondents while filling the structured questionnaire.
- The comparison of Public Sector and Private Sector Banks to be done in this research will be on the basis of only some selected banks i.e. 5 Public Sector and 5 Private Sector Banks. Hence the said comparison will be done on the basis of the policies and strategies followed by only those 10 banks, which may differ in case of the excluded Public Sector and Private Sector Banks.
- The banks included in this study are chosen randomly with the keen choice of the researcher.
- This study has taken sample of PSBs and PVBs and the other categories of banks such as RRBs and Foreign Banks are not taken into consideration.
- This study also does not include Private Financial Institutions like Diwan Housing Finance Limited, Indiabulls, GIC Housing Finance etc.
- Also among the banks selected by the researcher, SBI represents the data pertaining to only SBI banks’ overall branches and its Associates are not taken into consideration.
1.11 LIMITATIONS OF THE STUDY

- The scope of the study is restricted only to Western Suburban Region of Mumbai consisting of the area from Virar to Bandra.
- This study covers only the Western Suburban Region of Mumbai which expresses that it does not include the entire Mumbai Region.
- The study of other Metropolitan Cities in India is not covered under this study.
- The study has also not covered the banks that are existing only in southern and well urbanized areas in Mumbai such as Colaba, Trombay, Fort, Nariman Point and so on.
- The study has included only Western Suburban Region of Mumbai and neither of the Central nor of the Harbour Suburban Region of Mumbai including Navi Mumbai being taken into consideration.
1.12 CHAPTERISATION SCHEME

CHAPTER 1: INTRODUCTION

CHAPTER 2: REVIEW OF LITERATURE

CHAPTER 3: FINDINGS AND RESULTS

CHAPTER 4: SUMMARY AND CONCLUSIONS

BIBLIOGRAPHY

APPENDIXES