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Summary of Findings, Conclusions & Suggestions

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Summary of Findings, Conclusions & Suggestions

In this chapter, the important findings and conclusions arrived at after analyzing the collected data is presented. This chapter is divided into three sections, viz. Section A contains findings and conclusions arrived at after analyzing the simple (frequency) tables [section A(1)] and the two-way tables [section A(2)]. Section-B presents the findings and conclusions derived from the $X^2$ tests analyzing relationships between various variables and factors. Finally Section-C provides some important suggestions and recommendations which are based on these findings.

Section A-1 Findings of Analysis of Simple Tables

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

1) About 70% of the respondents were middle aged, i.e. 31 to 50 years of age.

2) The sample was dominated by males. (78%).

3) A majority of (55%) respondents were graduates.

4) Exactly 50% of the respondents were from business class, while 39% were from service class.

5) The maximum number of respondents (32%) had annual income of ` 2.4 to 3.6 Lakhs and 19% had income more than ` 3.6 Lakhs.

6) 77% respondents lived in nuclear family.

7) 32% of the respondents had taken some kind of loan from the bank earlier and 59% of them had taken vehicle loan earlier.

8) Most of the respondents availed of the information about the home loan from “other sources” like C.A. / loan consultant / friends, etc.

9) In case of only 6% of the respondents the term of loan was more than 15 years and for the remaining 94% the term of loan was less than 15 years.
10) About 2/3 of the sample customers had applied for loans below `10 Lakhs and 69% respondents were sanctioned loan below `10 Lakhs.

Section A-2 Findings of Analysis of Two–way Tables

The conclusions arrived at after analyzing the two-way tables are summarized below:-

1) It was found that in general BOB had sanctioned loan within shorter period than SPB.

2) The important reasons for availing the home loan were “to get relief in income tax”, “for investment” and “to receive rent income” in case of BOB customers, while for SPB customers they were “desire for big house”, “for investment”, and “to get relief in income tax” in that order of importance.

3) About half of the respondents had applied for home loan to buy a new flat or a new row-house.

4) It was found that 52% respondents were account holders of the bank concerned and most of them were holding their account for many years.

5) Applications of only 12 respondents were rejected and more than half of them were rejected due to negative CIBIL report.

6) Two important facilities utilized by the respondents are savings account and locker in the case of BOB and current and savings account in the case of SPB.

7) “Less processing fee”, “less interest rate” and “speedy loan process were important reasons for selecting BOB, while “Co-operative staff” and “less processing fee” were important reasons for selecting SPB.

8) The more frequently used modes of repayment are “cheque”, “standing instructions” and “ECS” for BOB customers there were “ECS” and “By Cheque” for SPB customers.

9) 93% respondents reported that proper bank services were provided and 90% and 88% respondents claim that there were no hidden charges and the bank gave full details and information, respectively.

10) 92% of the customers were satisfied with the services provided by the bank, in case of both BOB and SPB.
11) It was found that the customers of SPB were much more interested in switching over to other type (Nationalized) bank as compared to BOB, if they are asked to do so.

12) 75% of SPB customers, but only 25% of the BOB customers had read loan application form before signing it. The most important reason for not reading the application form was that it was filled in by the agents.

Section-B  Summary and Conclusions

The following is the Summary of findings obtained upon analyzing the relationship between various factors through $X^2$ test.

1) No association was found between the age of the respondents and any of the reasons for taking home loan.

2) There was an association between educational qualifications of respondents and the reason “in place of rented property”, but no association was found between other reasons such as “for investment”, “desire for big house”, “to get relief in IT” and “to receive rent income” and educational qualification of respondents.

3) No relationship was found between profession of respondents and various reasons for taking home loan listed above.

4) There was a relationship between type of banks and the reason for taking home loan, “to get relief in income tax” and the proportion of customers of BOB seems to be taking home loan “for income tax, purpose” was much larger as compared to BOB. No association was found between the type of banks and other reasons.

5) A highly significant association between the loan amount sanctioned and the type of banks was revealed and on an average BOB sanctioned high loan amount than was done by SPB.

6) Association between the reason “to get relief in income tax” and annual income of the respondents was found. However, no relationship could be established between other reasons for taking home loan and yearly income.

7) A significant relationship between utilization of savings account service and type of banks was found while 78% of BOB utilized this service, the corresponding
percentage was only 48 for SPB. But the various services utilized by customers had no association with the type of banks.

8) No significant relationship was found between the age of the respondents and various reasons for selecting the bank.

9) A strong association between the mode of repayment and the type of banks was confirmed. 44%, 40% and 16% customers preferred to make payment by cash for BOB and others by cheque and through ECS, while for SPB customers the respective figures were 20%, 18% and 62%.

10) No association between educational qualification and mode of payment was found.

11) No association between profession of respondents and mode of payment was found.

12) There was an association between selecting the bank for lower interest rate and the type of banks. The percentage of respondents who selected the bank for lower interest rate was 96% and 44% in case of BOB and SPB respectively.

13) There was an association between complaint entertained and solved and the type of banks. SPB fared better than BOB in this respect.

14) A strong association between the type of banks and the type of banks to which respondents would like to switch-over (If he / she asked to do so) was found. The percentages were 88 and 66 in case of BOB and SPB customers respectively.

15) No association between the age of respondents and the amount of home loan applied for is found.

16) It was found that the amount of home loan applied for and yearly income are related. As expected, customers having higher income had applied for higher home loan.

17) Similarly, the amount of home loan applied for is also related to profession of the respondents. Business class and other customers tend to apply for higher home loan amounts than service class customers.

18) There is a moderate relationship between the amount of home loan applied for and educational qualifications. The customers with higher education apply for a higher home loan than those with lower qualification.
19) Amount of home loan sanctioned is not related to age of the respondents.

20) However, the amount of loan sanctioned was found to be associated with yearly income as well as profession of the respondents, i.e., for the customers with higher yearly income and higher educational qualifications higher home loan was sanctioned.

21) The highly significant association between the amount of loan sanctioned and the type of banks was revealed and on an average BOB sanctioned more loan amount than SPB.

22) No association between the number of days taken for sanctioning the loan and yearly income of the respondents was found. However, there was a highly significant association between the loan sanctioned and the type of banks. BOB tends to sanction higher amount of home loan on an average as compared to SPB.

Section-C Suggestions and Recommendations

1) In this study, it was revealed that most of the respondents had gathered information about the home loan from informal channels of information such as CA/ Loan consultant and friends. There were very few respondents obtaining this information from formal sources of information like, newspapers, T.V. and internet. So, it may be suggested that the bank should make more efforts towards providing necessary information about the home loans through the formal channels which have much larger coverage as compared to informal channels.

2) It was found that in the case of SPB, the time taken for sanctioning loan was much longer than the time taken by BOB. Therefore, it may be suggested that SPB should take necessary steps to shorten this time gap, so that customers get the loan sanctioned within reasonably short period.

3) In the case of 7 respondents the reason for the rejection of their loan application was negative CIBIL report. Of course, this is one of the proper criteria to judge the creditworthiness of an applicant. However, in some cases it so happened that a cheque given by a customer had bounced back due to insufficient balance. If this has happened only once, then it should not be taken as negative CIBIL report and
the bank should try to find out whether the respondent is really a defaulter or it is just once in a time lapse on the part of the applicant.

4) Comparatively, smaller number of customers had selected SPB because of less interest rate and speedy process of loan application. So, it may be recommended that SPB should lower the rate of interest and try to have speedy process of loan to attract more customers. Similarly, in the case of BOB only 33 out of 50 customers declared that they had selected BOB due to good behavior of the staff. This calls for better dealing with customers by the banking staff.

5) Very few customers used modern modes of loan repayment such as online banking, mobile banking which are much more efficient than the other modes. It is suggested that the banks should try to make the modern modes of payment more popular among the customers.

6) In this survey, it was found that only 17 respondents were informed about the due date of installment in advance. In practice banks informed the customer only when two or more installments were overdue. Therefore, it is suggested that both the banks should take special care to see that the customers are informed about the due date of installments well in advance, so that, they do not have to pay penalty in case of late payment. Banks have to develop such a system that informed the customers about the due date of installment well in advance through mail or SMS.

7) A majority of BOB customers said that their complaints were not entertained and adjusted by BOB. Therefore, it is suggested that BOB staff should take proper steps to adjust the complaints made by the customers.

Similarly, majority of SPB customers felt that the bank should charge lower interest rate. So, SPB should formulate a lending policy in which the interest rates are lower.

8) Only 30\% of the BOB respondents had 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. Therefore, it is recommended that agent should make the respondents aware of all the details given in the application form. Also, information provided should be short and in vernacular.
9) SPB should make efforts to see that the customers make repayment of loan through standing instructions which is one of the efficient modes of repayment.

10) From the analysis of the data collected, it was found that BOB tends to sanction higher amount of home loan on an average compared to SPB. Therefore, it may be recommended that SPB also increases the amount of home loan sanctioned to its customers.

11) In the case of SPB customers, it was found that less than 50% of them utilize the savings bank account service of the bank. So, it is suggested that SPB should try to attract more customers taking home loan from the bank to open savings accounts with the bank so that to repayment, etc. becomes simpler.

   Apart from the above, the respondents themselves had given certain suggestions as follows.

12) The BOB customers suggested that the bank manager should not force the customers to take life insurance policy at the time of home loan disbursement. Bank is advised not to mix life insurance business with housing finance.

13) It was also suggested that sanction and disbursement process should be timely and transparent.

14) Moreover, the application form should be in vernacular.

15) One interesting suggestion made by a customer was that the “black part” of the payment for the property to be purchased should be included to determine the loan amount.

16) Some of the SPB customers suggested that they should not be forced to buy the shares of the bank when they apply for the home loan.

17) It is observed that during the research time, SPB is 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 SPB should have practice to verify CIBIL report before sanctioning any loan.
• Practical Problems Faced by Customers in Availing Home Loans

Getting a home loan is a lengthy procedure. However simple it might look in the bank’s advertisement, the fact remains that there are lots of problems involved in the entire process. The customer does not have proper knowledge about different home loan products. So they face problem in making good deals. There are procedural delays. The attitude of bank employees is sometimes less co-operative and it creates a hurdle in building trust and confidence between the customers and the banks. Here are some of the problems faced by home loan borrowers.

1) **Rejection at the First Stage:** Many of the home loan applications do not pass the first stage. They are outrightly rejected due to incompatibility between the borrower’s qualifications and the lenders requirements. It could be the age criterion, income criterion or proper documents not being submitted to the bank.

2) **Processing Fee not Refundable:** With every application form for home loans, banks require about 0.25% to 1% of the loan amount to be submitted as processing fee. This processing fee is generally not-refundable. This means that for whatever reasons, if the bank finds that a customer does not deserve the home loan, this fee won’t be returned.

3) **Desired Loan not Sanctioned:** The loan amount sanctioned bases mostly on repayment capacity of the borrower. Many things come into picture when the bank decides how much home loan a person can get. If factors such as the monthly income, financial history, other unpaid loans with the borrower, past payment record, total years in employment, nature of employment etc. are not found satisfactory, then the borrower’s application for loan can get rejected.

4) **The Interest Rate Dilemma:** Whether to go for a fixed rate or floating rate interest for home loan is a dilemma which almost every home loan borrower faces.

5) **Difference in Property Evaluation:** The bank has its own experts for legal, technical and financial appraisal of the property in question. It evaluates the property on its own established parameters and assigns a value to it. This value can be significantly lower than the price the applicant quoted for the property.
6) **The Down Payment:** Banks require the borrower to fund at least 10% to 20% (varying from bank to bank) of the entire loan amount as the down payment for the home loan. This amount has to be deposited before the disbursement of the home loan. On failing to pay the down payment, the bank will refuse home loan to the borrower.

7) **Title Deeds and NOC Documentation:** The title deeds and NOC documents have to be furnished in the bank’s format. Borrowers, who don’t provide such documents in proper format, will ruin the entire exercise and won’t get the home loan.

The above mentioned problems can be readily avoided if the borrower follows proper procedure, prepares adequately before applying and takes care of collecting documents required.

- **Suggestions for Banks**

  Banks should use easy/less lengthy procedure for the sanctioning of loan to the customer. The bank has to identify the potential customers. The bank should consider present competition and should act according to the customer’s needs. The banks should try to provide proper knowledge regarding their home loan schemes, even to people who don’t know about such schemes and their benefits especially in rural areas and in illiterate class. Relevant information should be provided to customers from time to time. People who deal with customers should have complete knowledge about the housing finance. Banks should target their promotional efforts to youth segment of population who have started their career and are desirous to own their dream home. Banks should try to focus on self-employed professionals to attract them towards their home loan schemes. The percentage of female customers opting for home loans is very less. As this group has great market potential in today’s era, banks should take some steps to target this customer group.

  Home loans have an inverse relationship with interest rate, therefore, banks have to reduce their interest rates on home loans. If the interest rate is low, the demand of home loans will increase. These points will be taken into consideration. All these points will be helpful to satisfy the customers.
• **Suggestions for Borrowers**

Buying a home is one of the major decisions a person has to take during his life. Home loan is an essential part of any home buyer endeavor. Taking a home loan is a long journey which involves many stages. The key to getting home loan in a smooth way is being familiar with the entire home loan process. The following factors should be considered while opting for a home loan.

Affordability (income, down payment, job stability), requirements (viz. buying from a developer, self-construction, repair investment), track record and credit history (principal amount, margin amount, loan eligibility, co-applicant), types of interest rates (fixed or floating), Equated Monthly Installments (EMI), loan tenure, processing fee, pre-payment charges, etc. One should understand that there are too many choices in the real estate market.

• **Policies and Practices for Home Loan**

1. **Home Loan Sanctioned within 6 to 10 days**

It is the policy of the bank to sanction home loan application within 6 to 10 days. Even in newspaper, TV and internet, banks give advertisements declaring to sanction home loan in shorter period. But for all practical purposes, it takes several days before an application for home loan is sanctioned as every such application is unique. Each case requires different set of documents due to different nature of the case. The officer of the bank is not in a position to identify a complete set of documents, which is required for sanctioning home in one time visit of the customer at the bank. So, the customers rush to the bank every time for one documents or the other. It results in delay of sanctioning the loans.

Also, work-load for the bank staff is one of the important factors for delay in sanctioning the home loan. Bank has limited staff and resources and customers of the home loan are very many.
2. **Interest Rate**

The principal objective of bank is interest. Each and every business done by a bank is for earning interest. Bank charges interest rate on home loan products in the following ways:

- Variable interest rate
- Fixed interest rate
- Flat interest rate
- Mixed interest rate

Nowadays, only floating interest rate is popular amongst the customers. All banks advise their customers to choose the floating interest rate. But in such inflationary situation in market in developing countries, fixed interest rate is also beneficial to the customer as bank’s interest rate for the loan is also increased with increased inflation.

But sometimes a bank officer does not explain anything at the time of the loan application. It is left to a loan consultant or the applicant to decide which type of interest rate he / she should opt for.

3. **Charges Collected by Banks**

**Prepayment Charges**

Early payment charges are a policy for all private banks. One can say that it is the charges levied by bank that leads to the breach of the contract agreement between the borrower and the bank. One can see that in all prepayment charges, which is above 25% of total principal outstanding at the beginning of the year, is chargeable at 2% to 4% from bank to bank depending upon the internal credit policy of the bank. Nationalised banks and co-operative banks do not charge for any prepayment.

But it is a general practice of the banks not to explain anything to the borrower until he inquires about something or until it comes to repay the loan.

**Preclosure Charges**

If a borrower of the bank is ready to pay whole amount of home loan and charges collected by bank at the time of preclosure of loan account, it is called preclosure charges. Generally, banks excluding co-operative banks, charge preclosure
charges for early closing of loan at 2%. But as discussed earlier, banks have a practice not to explain any thing till one inquires about. And a borrower will know only when he pays or was ready to pay the loan amount. But it is felt that, one should not pre close his home loan account, as there is income tax benefit given as per the Income Tax Act. One should claim as deduction in house property income and got benefit up to `150000 in Income from House Property Income. And borrower can also claim deduction U/s 80C which is not more than `100000. So not only interest but also customer can claim up to `100000 as deduction from his gross taxable income. Suppose a person has to pay 10% interest rate for home loan and if he is in tax slab of 30% then effective interest rate for home loan is only 7%. It is very clear from the above that one can invest in fixed deposit and get higher interest rate than 7%. Apart from getting interest income on Fixed Deposits, there is the benefit from deduction U/s 80C and appreciation of price of property by taking home loan in the current market scenario.

4. **To determine Income Eligibility for Home Loan**

Each bank has different credit policy for determining its customers’ income eligibility. The policy is that for sanctioning the loan bank required customer’s 3 years income –tax returns. But each bank has designed different internal policy for sanctioning the loan for example: In practice some bank considers average income on the basis of last 3 years income tax return, whereas, some banks consider income on the basis of the last year income tax return.

However, in practice it is seen that the nationalized banks and private banks followed their credit policy but in co-operative bank income eligibility may be determined in a lenient manner.

The general policy is that HUF’s income is not considered for income eligibility but in a few co-operative banks the practices is that HUF’s income is also considered for income eligibility.
5. **Loan Policy**

Some banks (mainly private banks) have been 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.

Some banks also consider the locality of the property. They have identified some areas in the Surat city as negative area, because approximately half of the total home loans sanctioned were converted into non-performing finance in that area.

6. **Registered Mortgage**

It is compulsory to register mortgage document from 01/04/2007, according to Bombay Stamp Act. However, some private banks have no practice of registering the same. Nationalized and Co-operative banks have a practice to follow the mortgage deed.

**Future Research Areas**

The following areas of research may be recommended for future research areas:

- Banking Frauds in Home Loan in Gujarat.
- Banking polices and practices for different type of loans.
- Comparative study of housing finance in rural and urban areas by Banks.
- Effectiveness of National Housing Policy in India.