

Housing Loan Report

Owning a house makes a person proud and happy and is something that one dreams about !! Banks and Housing Financial Companies (HFC) help in realizing this dream by extending a loan!!

But there are many questions lurking in the mind of a person trying to avail a housing loan!

- Some of the most common questions that come to your mind are
- Will I be eligible?
- Would it take a long time to process the Loan?
- Would the documentation be tiring and cumbersome?
- Will it be better to get the Loan from a Bank? Or Should I seek a Housing Finance company?

This study is an attempt to understand how banks operate with regard to Housing Loans and find answers to all the above Questions.

Housing is one of the basic needs of every individual. Most of us start living in a rented house and have a desire to “own” a house. However, with the real estate prices going up, taking a loan of lacs of rupees and paying EMI for such a long term - 20 or 25 years, could be a difficult decision. Liquidity constraints (non availability of ready cash), in an average middle class / low income family make buying of a house a difficult proposition. To meet the high cost of a house to be purchased or built, the consumer borrows money by taking a loan from the banks / Housing Finance companies.

All the nationalized banks, private sector banks, foreign banks and Housing Finance companies provide need based home loans to public. The amount of loan depends on the **repaying capacity** of the customers, **value of the property**, rate of interest and tenure of the loan. The interest is calculated on daily balances and charged on monthly basis.

This report is meant to facilitate the task of availing a home loan, the key features of home loan schemes of Banks /HFCs and sharing of the experience / views of some of the home loan customers. In the process it also aims to explain some of the banking jargons and terminology used by banks / HFCs, so as to create better awareness.

One of the benefits available for consumers is an Income Tax benefit for housing loans. Housing loans are a useful tax saving tool particularly for salaried employees. In India people avail home loans to reap these benefits besides having the house as a valuable saving and asset, for current living and for their old age.

Home loans are granted by Bank/ HFC for the purchase of new/old dwelling unit, construction of house, purchase of plot of land for construction of house and repayment of a loan already taken from any other Bank/ HFC. Home loans are a long term loan with repayment spread over a period of 15 to 20 years. Banks are vying with one another targeting the home loan market. From the bank's point of view, with the stipulated margin, the home loan portfolio is secured by the mortgage of underlying house property acquired using the Bank's home loan. The value of the property has generally been increasing every year. Banks

also lend only 80% of the value of the property. With every repayment of the monthly EMI (Equated Monthly Installment) the security coverage increases. Also, as this retail loan is broad based spread over a large number of customers, the risk is very much lower than large loans.

Some common terms used by banks:

TAKE OVER: The transfer of a housing loan account from one bank/housing finance company to another Bank / HFC by a home loan borrower.

HOUSING FINANCE COMPANY (HFC): There are non banking companies extending housing finance to home loan customers. E.g. HDFC, HUDCO, LIC Housing Finance Ltd, GIC Housing Finance Limited and a number of Housing finance subsidiaries floated by commercial banks.

KYC NORMS: Know Your Customer Norms are mandatory and customers have to comply with these norms (Both Deposit and Loan) of the banks.

REQUIREMENTS: For Home Loans, the Banks/ HFCs require home loan application form with photograph duly signed by all applicants, identity, residence and age proof, 3 months' pay slips, Form 16, income tax returns, last six months bank statement, processing fee cheque, and audited financial statements in the case of self employed persons.

PRINCIPAL LOAN AMOUNT: The loan amount granted by the Bank/ HFC.

MARGIN: The contribution from the home loan borrower towards the cost of the housing property. **The margin is 20% for most of the banks. But the margin varies from 10 to 35% depending on the quantum of loan.** (Only the balance is financed by the Bank/ HFC)

TENURE: The duration for repayment of the loan.

MORTGAGE: A mortgage represents a lien on a property/ house for a loan granted against the property.

SARFAESI ACT: The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 allows Banks and HFCs to auction properties (residential and commercial) when borrowers fail to repay their loans.

MONTHLY RESTS: The term denotes that the interest will be charged and debited to the loan account by the Banks/ HFCs every month. (If the interest is not paid then the interest on interest gets charged as the bank calculates interest on the outstanding daily balances)

INTEREST SUBSIDY FOR HOME LOANS TO URBAN POOR:

This is a scheme of Government of India to provide Interest subsidy on housing loans to Economically Weaker Sections (**EWS**) and Low Income Group (**LIG**)

MORATORIUM / INITIAL HOLIDAY: The time given by the Bank/ HFC during which the installments need not be paid by the borrower. However interest gets accrued even during the holiday period. Such holiday (usually 6 to 18 months) is given when it takes time to

construct and complete the house property. It may be mentioned that some builders offer to bear the interest cost till the housing property is completed and handed over.

CO-OBLIGANT: Co-obligant, guarantor is the person who promises to settle the Bank/ HFC loan when the principal borrower fails to meet the loan obligation.

SECURITY: The security is an interest created (by a mortgage deed) on the asset financed using the Bank/ HFC loan in favour of the financing institution.

SPECIAL OFFERS: These are certain additional concession and benefits offered by Banks/HFCs to their home loan borrowers as a part of the loan scheme and /or as a marketing strategy. Free insurance for the property during the period of the loan, concession /waiver of processing charges, free issue of credit card etc are some of the special offers.

GUARANTOR: Same as Co-Obligant

INSURANCE: The insurance is a protection to the owner of the asset against loss due to fire, earth quake, flood etc. Some Banks/ HFCs also arrange for insurance against liability of the loan in the unfortunate event of the demise of the home loan borrower.

FORECLOSURE /PRE PAYMENT CHARGES: Banks/ HFCs were charging up to 2% on the outstanding amount as prepayment charges when the loan account is closed or transferred to another bank before the due date. **Recently RBI has instructed the Banks/ HFCs not to charge prepayment charges.**

POWER OF ATTORNEY: A Power of Attorney (**POA**) is a written authorization to represent on another's behalf to execute loan documents, purchase and create security on the property.

PENAL INTEREST: Additional interest charged (usually 1 to 2%) by the Bank/ HFC for the delay in payment of loan installments.

PROCESSING CHARGES: These charges are to be paid to the Bank/ HFC upfront when a loan application is made. The amount will not be refunded even if the loan is rejected by the Bank/ HFC.

DOCUMENTATION: Document is a written statement of facts testifying the transaction in a court of law. Completion of documentation formalities as per approved sanction letter, before the disbursement of the loan is required by the Bank/ HFC. The Bank/ HFC creates a charge and has a **lien** over the assets of the borrower in favour of the Bank/ HFC for the due payment of the loan and accrued interest.

VALUATION: Banks/ HFCs use the empanelled architects for the valuation of the property against which the loan is being considered by the Bank/ HFC.

ASSET VERIFICATION: Asset Verification means physical verification by an official of the Bank/ HFC or their authorized agent. This is to ensure existence and conformity with the requirements of the bank in the asset as its security.

INSPECTION CHARGES: Banks/ HFCs charge inspection charges for the asset verification carried out by the their officials or authorized agents.

TAX BENEFITS FOR HOME LOANS: The Income tax Act provides benefit to the borrowers by way of deduction on taxable income on the instalments (principal and interest) paid on home loans.

PROJECT APPROVAL BY BANKS/ HFCs: In order to reduce the repetition, cost and time in getting the legal opinion and valuation Banks/ HFCs *ab initio* scrutinize the housing projects for construction of residential flats. Thereafter they extend the home loans for the buyers of the flats.

ONLINE APPLICATION FACILITY: Some Banks/ HFCs through their website collect the basic details of the home loan applicants to give them the feedback on their eligibility and other requirements.

CENTRALISED PROCESSING CENTRE: Banks have created centralised outfits for processing the retail loans (Home loans, car loans, personal loans etc) in major urban and metro centres. Such outfits complete all the requirements till the pre disbursement stage and the disbursement is made at the branch of the bank. The centre is technologically equipped for processing of the retail loans, panel for legal opinion, valuation etc. Such centres also have tele-callers for marketing the retail loans and responding to the queries of retail loan customers.

STANDING INSTRUCTIONS: The instructions given by a customer to his bank authorizing the bank to debit his savings account every month and pay/ credit the loan installments.

BPLR: In banking parlance, the BPLR means the Bench mark Prime Lending Rate. BPLR is the interest rate that commercial banks normally charge their most credit-worthy customers. The Reserve Bank of India (RBI) committee on reviewing the BPLR recommended that the BPLR nomenclature be scrapped and a new bench mark rate “known as Base Rate” should replace it. Banks/ HFCs are not allowed to lend below the Base Rate. (Except for those cases specified by RBI). Earlier banks were lending below BPLR also (sub-BPLR loans)

BASE RATE: The base rate is a reference rate to which all the lending rates are linked by Banks/ HFCs. When RBI, as a part of monetary policy, changes its policy rates the Banks/ HFCs also revise their “Base Rate”. Automatically all interests linked to this base rate are increased or decreased.

EQUATED MONTHLY INSTALLMENT(EMI)

The equated monthly installments are calculated as under:

The Principal plus total interest for the entire period of the loan is divided by the total number of monthly installments to arrive at the EMI.

EMI for Rs 1 lakh for different periods and for different rates of interest is given in the table below.

EMI TABLE TO BE INSERTED

Equated Monthly Installments for every Rs. 1 lakh of Loan for various repayment periods

Note: EMI will increase with increase in quantum of loan. The EMI is dependent on the disposable income of the applicant. This will ultimately determine the actual margin from the borrower and the loan component.

RATE OF INTEREST

Interest rate is the most important component of the home loan. Till recently banks were considering fixed and floating rate of interest. Most of the banks have discontinued the fixed interest rates on home loans.

Floating interest rate

Here the interest rate is referenced to a “Base Rate”. The home loan interest is charged as a %age of addition over the base rate. The “Base Rate” is periodically revised by the banks (for the Bank as a whole) and all the referenced lending rates including the home loans are automatically changed.

Fixed interest rate

Under fixed interest rate the rate of interest remains unchanged for certain period;irrespective of changes in the market rates. Banks were usually having 3 to 5 years as the period after which the rate is reset. Under the fixed interest scheme the rate of interest is higher than floating interest rate. Banks also charge a percentage on balance outstanding for shifting from fixed interest rate to floating interest rate.

The Government of India has announced interest subsidy on interest rates charged by the banks. Under this Home loan borrowers will get interest subsidy of one percent for loans up to Rs 15 lakhs taken during the financial year 2012-13. However, the condition is that the cost of the house should not exceed Rs 25 lakhs.

CREDIT SCORE (CIBIL Score)

A credit score is a detailed credit history of an individual and is the evidence of the credit worthiness. Based on the credit history of an individual, CIBIL gives a score between 300 and 900. CIBIL website may be referenced for further details www.cibil.com.

Scores are awarded by CIBIL (Credit Information Bureau [India] Limited) in association with international rating agencies like Dun & Brad Street and Trans Union. Banks and HFCs check the credit score before approving the loan applications. 80% of the loans approved are for individuals with a CIBIL score greater than 750.

CUSTOMER RATING

Banks use their own scoring methodology and also CIBIL scores for sanctioning home loans to the applicants. The main objective of the Customer Rating is to primarily assess the sustained repayment capacity of the Home loan applicant.

The following attributes of the prospective home loan customers are generally considered.

- Income
- Age
- Academic qualification
- Family size and number of dependents
- Assets and Liabilities
- Track record of other institutional borrowings
- Saving history and capacity
- EMI vis-a-vis Net surplus income

Similar details of co obligant / guarantor are also obtained

CALCULATION OF ELIGIBLE LOAN AMOUNT

Loan eligibility is calculated by Banks and Housing Finance companies using different formulae / approaches:

- The number of times the annual income.
- Percentage of the cost of the property to be acquired.
- EMI multiplied by the tenure or period for repayment of the loan.
- LOAN to value ratio.
- CIBIL score etc.

However, the two important factors are the value of the property and repaying capacity (EMI) of the loan applicant.

FORECLOSURE/PREPAYMENT CHARGES

As the name suggests it is the closure of the loan before the stipulated tenure.

Recently, in circular dated 5th June 2012 Reserve Bank of India has directed banks “not to charge foreclosure charges /prepayment penalties on home loans on floating interest rate basis with immediate effect.”

RBI also *inter alia* has observed in the same circular that “As such, foreclosure charges are seen as a restrictive practice deterring the borrowers from switching over to cheaper available resource.”

REVERSE MORTGAGE LOAN

This new home loan product of banks, is meant to provide a regular source of income in the form of regular pay out and lump sum amount to Senior Citizens (aged above 60 years) for expenses. The self-acquired and self-occupied property is given as a security by way of equitable mortgage. The minimum amount is Rs 1 lakh and maximum amount is Rs 100 lakhs. The tenure is between 10 to 20 years.

The loan with interest can be repaid by bulk payment or by sale of the property by the borrower or his legal heirs.

The interest rate is generally higher than conventional home loans and hence the product is not very popular; at present, Base rate plus 2.5%. (13% p.a)

Include write up about new annuity scheme announced by National Housing Bank re reverse mortgage.

WHAT SHOULD ONE DO TO AVAIL A HOUSING LOAN?

The Procedure for availing a home loan

The following processes are involved before a home loan is sanctioned and an account is opened by the bank for disbursement and repayment of the home loan.

- Submission of Loan application with details of housing property, its cost, loan amount, repayment period required; also, applicant's age, income, assets, liabilities are collected to assess the viability of the loan proposal.
- The payment of processing charges by the loan applicant.
- Verification of the details given by the applicant and appraisal to decide the eligible loan amount, rate of interest and the monthly installments for repayment.
- Scrutiny of the title deeds of the housing property to be acquired by the Bank's/ HFC's legal advisor for ascertaining the **clear and marketable title to the property** by the loan applicant.
- Pre sanction inspection of the housing property.
- **Valuation of the property** by the bank's/ HFC's approved architect.
- **Sanction of the loan** and communicating to the applicant with the terms and conditions; which include mainly the amount of the loan, rate of interest, margin, period of the loan, mode of disbursement (in one lot or in stages for the constructed property) , Equated Monthly Installment (**EMI**) and any other terms and conditions.
- Acceptance of the terms and conditions by the applicant and depositing the margin money.
- Execution of the loan documents by the borrower, **creation of security** by mortgaging the housing property against which the loan is sanctioned by the bank/ HFC.
- Registration of the Equitable Mortgage document with the sub-registrar of assurance under whose jurisdiction the property is located. The charges and stamp duty payable varies from state to state.
- Insurance for the property against all risks.
- Opening of the loan account by the bank/ HFC and **disbursal of the loan** amount directly to the seller of the property, construction contractor or to the other bank/ HFC in case of transfer of loan from one bank/ HFC to another bank/ HFC.

- **Repayment of loan** by stipulated installments and closure of the loan account.
- Provision of interest and installment certificates for claiming admissible reliefs under tax laws.
- Release of the mortgaged property by the bank/ HFC and **return of the original title deeds** (documents) of the property.

Most of the banks have created separate outfits (Centralized Processing Cells) for the pre sanction appraisal and sanction of Retail Loans. The post sanction disbursement and servicing of the home loans are done by the bank's branches chosen by convenience by the borrower customer. The banks also use technology for the appraisal, sanction, disbursement and servicing of Home loans.

The DT table given in the annexure gives the comparative features of different banks.

Documents to be submitted for Housing Loan

PERSONAL PAPERS

- Residence proof & Date of birth proof of the applicant / co-applicant / guarantor -. Pan Card, Voter ID, Ration card, Passport, driving Licenses (Xerox with original for verification)
- Two passport size photographs of the applicant / co-applicant / Guarantor,
- For Salaried persons – Last three salary slips along with Form No. 16 and IT returns. (employment details /bio data of last 3 years)
- Last three years continuous employment record (Xerox with original)
- For company /Firm /Business men /professionals / self-employed- Last 3 years IT return, certified copy of Balance sheet and Profit & Loss A/cs etc.
- Bank statement for the last -6- months (salary account, Personal accounts & Business accounts, Loan accounts
- Payment of processing fee by cheque.

PROPERTY RELATED DOCUMENTS

- Copy of the agreement with the builder / seller duly stamped and registered.
- Copy of the registered sale deed of the plot of land acquired if applicable.
- Copy of all parent documents of the property and encumbrance Certificate for 13 years. (Some banks require for 30 years)
- Plan permit, building permit, approved plan, and lay out copy. In the case of new construction detailed estimates.
- Latest property Tax receipts / copies of Patta.

Additional Documents required for take over from other banks

- Up to date statement of Loan amount to be taken over, covering prior period minimum of 2 years.
- Letter of foreclosure.
- Copy of original sanction letter.
- Letter stating list of documents deposited as security.
- Certified copy of original sale deed or duplicate copy of the sale deed.

Tax Benefits of Availing a Housing Loan

- Government of India has announced a number of Tax reliefs / rebates under the Income Tax Act 1961.
- Also the property tax paid to Municipal authorities can be deducted from the Income from house property to arrive at the Annual Value.

The above benefits are available subject to you fulfilling certain conditions, for which you should refer the IT Act 1961

The deductions are available to assesseees, who have taken a loan to either buy or construct a house under Section 24 (b). However, interest on borrowed capital is deductible up to Rs 1, 50,000, subject to certain conditions as indicated below

- Capital is borrowed for acquiring or constructing a property on or after April, 1, 1999.
- The acquisition and construction should be completed within 3 years from the end of the financial year in which capital was borrowed.
- The person extending the loan, certifies that such interest is payable in respect of the amount advanced for acquisition or construction of the house.
- A loan for repayment of principal amount outstanding under an earlier loan taken for such acquisition or construction.
- In addition to the above, principal repayment of the loan / capital borrowed is eligible for a deduction of up to Rs. 1,00,000 under Section 80C from assessment year 2006-07
- Both the spouses, who are tax-payers with independent income sources, get tax deduction benefits, with respect to the same housing loan, to the extent of the amount of loan taken in their own respective name.
- If an individual buys a house and sells it within the same year or after 3 years, and if any profit is made, then a capital gains tax liability arises on the same for which the individual is liable to pay short-term capital gains tax since the sale took place in the same year. But in case, if the sale had taken place after 3 years, then a long term capital gains tax liability would have arisen.
- A joint home loan is beneficial to club incomes for higher loan eligibility. Also, from Taxation point of view as all co-borrowers can claim deduction under section 24 of Income Tax Act against interest repaid and under section 80C against Principal repaid.
- Where two or more persons have taken a joint home loan, every assessee (person paying the Income Tax) can enjoy the tax benefits available under the Income-tax Act, 1961 in respect of the Principal and interest paid during a financial year, on proportionate basis.

Deduction Available to Person on Transfer of House Property U/s 80 C

Any stamp duty, registration fees and other expenses for the purpose of transfer of such house property is allowable as deduction U/s 80C of one's income. To this extent one can claim benefit whether or not home loan principal portion is paid to bank or not.

Set off Loss U/s 71B

Negative income in case of income from house property (which is always there for self-occupied property and possible in some cases of let out property) such as set off amount of loss under section 71B of the Income Tax Act, 1961 is allowed to be adjusted against positive income under other heads and contributes to savings in tax, at the applicable rate.

COMPARATIVE TESTING

Comparative Testing is a formal process by which products & services of different vendors are tested for Quality; the services are tested for compliance to the regulations laid out by the regulatory authorities for services. CONCERT is undertaking to do this Comparative Testing for South India under a grant from Department of Consumer Affairs, Government of India. This year CONCERT tested 7 products and 3 services out of which one of the services chosen for testing are Housing Loans.

Banks and Housing Finance companies were grouped in four categories for this comparative testing project

Banks and HFCs shortlisted (based on their business and presence in South India) for the study are:

- | | |
|---|---------|
| 1. Nationalised (PSU) Banks and subsidiaries. | Group A |
| 2. Private sector banks and subsidiaries (New Generation) | Group B |
| 3. Private Sector Banks and subsidiaries (Old Generation) | Group C |
| 4. Housing Finance Companies (HFCs) | Group D |

Public Sector Banks Group A

1. STATE BANK OF INDIA
2. CANARA BANK
3. BANK OF BARODA
4. ANDHRA BANK
5. INDIAN BANK
6. INDIAN OVERSEAS BANK
7. CORPORATION BANK
8. PUNJAB NATIONAL BANK
9. CENTRAL BANK OF INDIA
10. BANK OF INDIA

Private Sector Banks Group B

1. AXIS BANK
2. HDFC BANK LTD
3. ICICI BANK LTD
4. IDBI BANK LIMITED
5. STANDARD CHARTERED BANK
6. ING VYSYA BANK

OLD GENERATION PRIVATE SECTOR BANK GROUP C

1. KARUR VAISYA BANK LTD
2. LAKSHMI VILAS BANK
3. FEDERAL BANK
4. CATHOLIC SYRIAN BANK

HOUSING FINANCE COMPANIES GROUP D

1. HDFC
2. CANFIN HOMES LTD
3. LIC HOUSING FINANCE LIMITED
4. SUNDARAM BNP PARIBAS HOME FINANCE
5. GIC HOUSING FINANCE LTD

TESTING METHODOLOGY Adopted:

(a) Customer Survey

With the help of expert committee members, a detailed survey questionnaire was prepared which aimed to test the customer's perception, expectations and satisfaction on the home loan products/services offered by his/her bank or housing finance company.

The following issues were found to be relevant:

- (1) Ease of getting the sanction and disbursement.
- (2) Customer awareness about the home loan scheme features etc. from the Commercial Banks and HFCs.
- (3) (i) Customer Experience during pre-sanction stage;
(ii) Customer Experience during disbursement stage;
(iii) Customer Experience during post disbursement stage and
(iv) Customer Complaints
- (4) Submission of loan application and other documents.
- (5) Documents required by the bank/ HFC.
- (6) Existing relationship with the bank or HFC.
- (7) Processing charges, Legal charges and valuation charges.
- (8) Time, efforts and difficulties faced during the processing e.g. queries, asking for more and more details, pre sanction inspection, requirement of guarantor, time taken for completing the appraisal and sanction.

(9) Terms of sanction viz amount of loan vis-a-vis the loan amount requested, rate of interest, margin stipulated, stages of disbursement, EMI and other terms stipulated.

(10) The time taken for execution of the loan documents.

(11) Satisfaction at the disbursement stage.

(12) In terms of servicing of the loan in paying the EMIs, acceptance of genuine delays etc.

(13) Delays in return of the title deeds after the account is closed.

The survey was conducted by an empanelled agency across the four southern states by contacting the existing and prospective customers for home loans. After collection of responses the questionnaire was transformed using the software to collect data, to collate the data and prepare the reports.

The present survey was limited geographically to the four southern states of Tamil Nadu, Andhra Pradesh, Kerala and Karnataka. The questionnaire and responses numbering around 2300 were collected from housing loan customers from the four southern states, as under:

Tamil Nadu	25%
○ Karnataka	25%
○ Kerala	20%
○ Andhra Pradesh	30%
Total	100%

The sectoral distribution

Metro –	30%
Urban –	30%
Semi-urban -	20%
Rural –	20%

(b) Desk Test

The second method of testing is desk analysis. Here, the various fees/charges/interest rates charged by banks/housing finance companies were studied and compared. This process involved gathering data that was openly available in public domain. (Either from the bank/housing finance company or its web site).

Parameters Compared

1. Interest rate

The base rate, fixed interest, floating interest rate, the rate of interest for various loan maturities like 5 years, 10 years, 15 years etc. The longer the period the higher will be the rate of interest.

2. The processing charges

3. Charges for legal opinion

4. Charges for the Bank's/ HFC's architects valuation of the housing property

5. Banks provide concessions and rebate in charges/ interest rates for employees of reputed companies and also during certain festival periods.

6. Penal interest for delay in payment of installments.

7. Foreclosure charges for early closure of the loan account. RBI and NHB have recently directed banks/ HFCs “not to charge any penal interest” on the foreclosure of home loans
8. EMI table per Rs 1 lakh for different periods (5 years, 10 years and 15 years) for a range of interest rates.
9. Any other charges like registration of mortgage and release of mortgage.
10. Time taken from the date of application to the disbursement of the home loan by different banks/ HFCs.
11. Requirement **Post dated Cheques (PDCs)** and Standing instructions for payment of installments. Recently RBI has advised banks to discontinue the PDCs and to switch over to ECS and other online / direct payment options.
12. The quality of the service as perceived by the home loan customers.
13. The total financial cost can be one of the relevant parameters in availing the home loan from a Bank or HFC. This can also be useful in choosing the quantum of loan to be availed, optimum tenure and from whom to avail. The financial cost includes processing charges, legal charges, documentation charges, interest for the total duration of the loan and other charges.

See the Desk Test Table for comparative study ??

SCORING METHODOLOGY

CONSUMER SURVEY

The survey questionnaire has responses which were predominantly **YES/ NO**.

All **YES** (positive responses) were given a score of **4** and the **NOs** were rated as **0**.

The sum of the scores along with the percentage, segment wise and for the Bank/ **HFC** can be indicative of the quality of the service as perceived by the respondents.

Where the responses are received on **1 to 5** scale, the best perception will be given a score of **5** and worst performance a score of **1**. Again the scores can be added to compare the performance of the Banks/ HFCs for the service component.

Survey Results and observations

The amount of home loan availed

	<Rs. 10 Lakhs	Rs. 10 to 20 lakhs	Rs. 20 – 30 Lakhs	Above Rs.30 lakhs
Group A	715	255	158	21
Group B	343	248	209	39
Group C	79	28	19	8
Group D	62	70	34	28

From the above it is observed that majority have availed loans upto Rs 30 lakhs, indicating the retail demand for home loans.

How long did the bank / HFC take to provide the loan application form?

	up to 7 days	8 to 14 days	15 days or more
Group A	619	330	199 (15%)
Group B	436	181	218 (25%)
Group C	78	32	24 (15%)
Group D	98	33	62 (31%)

From the above it is observed in 20 % of the cases even the issue of loan application was delayed beyond 15 days.

The time taken (number of days) from the date of application and sanctioning of home loan

	< 7 days	7 to 15 days	15 to 30 days	> 30 days
Group A	36 (3%)	299 (26%)	550 (48%)	264 (23%)
Group B	19 (2%)	228 (27%)	418 (50%)	173 (21%)
Group C	2 (1%)	48 (36%)	52 (39%)	32 (24%)
Group D	13 (6%)	67 (35%)	65 (34%)	47 (25%)

Note: The percentage of sanctions are given in brackets.

- 47% of the respondents have expressed delay of more than 7 days for availing the loan from the bank.
- Nearly 55% of surveyed respondents were able to submit loan application online.

Payment of the EMI to the bank/ HFC

	Direct at the bank/office of HFC (Cash/ Cheque)	ECS (Debit)	Online using Internet banking	Post Dated Cheques	Standing Instructions (SI)
Group A	555	298	25	176	95
Group B	296	362	9	123	45
Group C	66	44	2	11	11
Group D	34	110	1	43	5

The above indicates that majority of the customers service their loans by directly visiting the branch / office.

Consumer awareness about terms and conditions of home loans

- Nearly 94% have expressed that the Bank /HFC staff have explained the features, terms and conditions of the home loans;
- 86.5% have received copies of documents.
- 96% were able to submit the documents required by the bank without difficulty.
- 96% have expressed that terms and conditions of the documents have been explained.

The above are indicative of increasing awareness and understanding of the terms and conditions by the consumers.

The reasons for Choosing a Bank /HFC

- Present Banker / Existing relationship 41.5%
- Ease of approach and sanction 31.5%
- Interest rate 22%
- Builder reference 4.92%

Other observations

- 65% reported awareness of the processing charges being payable upfront and not being refundable even if the loan application is rejected.
- Only 20% have approached an agent for availing the home loan; 80% have preferred to contact the office directly.
- More than 80% have expressed that the Bank /HFCs were asking for additional information in a piecemeal manner; after the loan application had been submitted.
- 56% have visited more than 3 times.
- 47% of the loan applications were sanctioned in 15 to 30 days.
- 3% were able to avail loan in less than 7 days.

Additional burden insisted upon the customer by the Bank /HFC

The answers were equally divided between **YES and NO**.

However, an analysis of negative respondents to this question is as under:

Insisting on Deposit accounts and

(a) Investment products. 609 out of 2316 respondents

(b) Life Insurance 524 out of 2316 respondents.

Strangely, only 65 respondents have stated that nothing was insisted upon (while giving the details); but 49.8% have said YES- - i.e Insisted upon.

Complaints

The complaints generally reflect the deficient areas of concern /dissatisfaction of the customers.

The breakup of complaints is as under:

Nature of Complaints/ Group	A	B	C	D	Total
Loan sanctioned but delay in disbursement	480	380	52	89	1001
Interest Rate increase but not communicated	345	210	34	21	610
Delay in service	229	128	29	12	398

Note: Only 62 out of 2316 respondents have reported as “No Complaints”!

Overall survey rating is as tabulated below

Grouping				Criteria
Public Group A	New Gen Private Group B	Old Gen Private Group C	HFC Group D	
Good	Good	Fair	Fair	Technological advance (Question 1)
V.Good	V.Good	V.Good	V.Good	Ease of approach (Questions 2, 3, 5, 6, and 15)
V.Good	V.Good	Good	Good	Awareness (Questions 4, 7, 8, 9, 10, 11, and 12)
V.Good	V.Good	V.Good	V.Good	Service Level (Questions 13 and 14)

Box item

NEW REAL ESTATE REGULATION AND DEVELOPMENT BILL INTRODUCED IN RAJYA SABHA

- A bill seeking to protect home buyers from unscrupulous developers and builders and having provisions like jail term of up to three years for offences like putting up misleading advertisements about projects.

- The bill also intends to make it mandatory for developers to launch projects only after acquiring all statutory clearances from relevant authorities. It makes it mandatory for builders to clarify the carpet area of the flats as well.
- The bill will also facilitate the establishment of an Appellate Tribunal, which will hear appeals from decisions, directions or orders of the Authority and related matters.
- Real estate agents will also be asked to register with the regulator, a move that is expected to help in curbing money laundering.
- All relevant clearances for real estate projects would have to be submitted to regulator and also displayed on a website before starting construction.

WHILE AVAILING A HOUSING LOAN

Please remember:

- Under RBI's new regulation Banks cannot charge foreclosure penalty for pre closing the housing loan before its tenor; if it is done with one's own funds.
- At the same time foreclosure penalty is applicable if the loan is closed with the help of fund from another bank or financial institution.
- Many banks and their representative often suggest to the consumers to move their loan from their existing bank as they offer a slightly lower interest rate.
- Beware that such an attempt will attract foreclosure penalty and one will land up paying more by way of interest if the foreclosure component is taken into consideration.
- Most banks offer floating interest rates which means the current interest rate on the housing loan may go up or come down. But with inflation the interest rates will only go up and seldom fall very low. So adequate planning is required to pay out an increased monthly installments if need arises.