

HOUSING LOAN MANAGEMENT: A STUDY OF KUC BANK LTD.

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Abstract *In developing countries like India, the house is a dream of most of the people living in a villages as well as slum in urban areas and middle class people living in houses on rental basis. For these aspirants of houses, housing loan is golden opportunity to bring their dreams into reality. Due to the urbanization and the migration of people, high level demand of housing needs in urban areas is realized. Prior to New Economic policy 1991, banks were not entertaining long term finance for housing purpose. After liberalization, RBI has introduced the policy of housing finance up to Rs. 15 lakhs as priority sector lending. The housing loan is an important issue in the country like India where crores of people are struggling for shelter especially in urban area. The banks can play a supporting role in this connection by providing housing loan to many people who are eligible for it. This paper aims at the comparative analysis of home loan policies and their implementation by various banks. ICICI Bank (Private Bank) Bank Of India (Public Sector Bank) and Kolhapur Urban Co-operative Bank (Cooperative Bank) have been selected for this empirical study on housing loan. Each type of bank has its own identical characteristics as (i) ICICI Bank has preferred Door step service and sanction TAT services for loan (ii) Bank Of India has preferred the attractive rate of interest and (iii) KUCB has preferred the easy and minimum documentation.*

Keyword: *Housing Loan, KUC Bank, Home Loan Policy*

INTRODUCTION

In developing countries like India, the house is a dream for most of the people living in villages as well as slums in urban areas and middle class people living in houses on rental basis. A housing loan is golden opportunity to bring their dreams into reality, for these aspirants of house. The high level demand of housing needs in urban areas is realized due to the urbanization and the migration of people. Prior to New Economic Policy 1991, banks were not entertaining long term finance for housing purpose. After liberalization, RBI has introduced the policy of housing finance up to Rs. 15 lakhs as priority sector lending. The housing loan is an important issue in the country like India where crores of people are struggling for shelter especially in urban area. The banks can play a supporting role in this connection by providing housing loan to many people who are eligible for it. This paper aims at the comparative analysis of home loan policies and their implementation by various banks. ICICI Bank (Private Bank) Bank Of India (Public Sector Bank) and Kolhapur Urban Co-operative Bank (Cooperative Bank) have been selected for this empirical study on housing loan. Each type of bank has its own identical characteristics as (i) ICICI Bank has preferred Door step service and sanction TAT services for loan (ii) Bank Of India has preferred the attractive rate of interest and (iii) KUCB has preferred the easy and minimum documentation.

OBJECTIVES OF THE STUDY

1. To make comparative analysis of home loan policy formulated by Kolhapur Urban Cooperative Bank and other banks.
2. To identify the problems encountered by borrowers of housing loan.
3. To offer suggestions.

THE STATEMENT OF THE PROBLEM

Shelter is one of the basic needs. In developing countries like India, the house is a dream of most of the people living in a villages as well as slum in urban areas and middle class people living in houses on rental basis. For these aspirants of houses, housing loan is golden opportunity to bring their dreams into reality. But while seeking access to credit, they face various problems. Public sector banks are playing an important role in catering to the credit needs of housing finance, following the business of non-banking financial institutions like HDFC and few private banks. At grass root level, the cooperative banks have space in housing finance sector. But in promptness private sector banks are ahead of others. On the other hand, nationalized banks are providing housing loans at lower rate of interest and minimum processing charge. But even cooperative banks have moderate role as the process of sanctioning loan is passed and the rate of interest is also

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reasonable. In this context, the question arises which type of bank has proper strategy to attract the customers under their home loan schemes. So, after reviewing some studies on housing loan it was decided to undertake the present study aiming at comparative analysis of these strategies for home loans implemented by the cooperative bank, nationalized bank and private bank. This analysis is based on different variables and attributes like age group, occupation, income group, type of house property, media of awareness, purpose of loan, investment avenues, factors motivating the bank borrowers, procedure of documentation, Quickness of getting loan, additional charges, rate of interest, promptness of EMI payment, monthly expenditure of borrowers, effect on expenditure, effect on expenditure on child education, deduction of installment through payment and opinion about bank services.

REVIEW OF LITERATURE

There are few studies, which have covered some issues related to housing finance. Gaur (2009) has articulated that Retail banking in India operates in a highly saturated and competitive market. The main objective of the research is to make a comparative study of satisfaction of the borrowers from the selected banks. It is concluded from the study that ICICI bank has an excellent staff members in terms of behavior in comparison to the staff members of SBI. Further the services of ICICI bank are much better than the services of SBI. Bandyopadhyay (2011) has demonstrated the importance of borrower specific characteristics as well as local situation factors in determining the demand prospects as well as the risk of credit, loss on residential housing loan repayment behavior in India. This paper attempts to find out the critical factors that drive demand for housing and its correlation with borrower characteristics using a panel regression method. Subburaj (2010) has articulated that the housing sector plays an important role in the economic development of the country. It is important to know about the home loan agreement clauses before signing, as it will help the borrower to bargain with the lenders. The result indicated that the majority of the consumers are not aware about the various clauses in the home loan agreement and majority of the customers do not know the importance of reading it.

Varghese (1980) dealt with the problem of housing finance as (a) the definition, importance, problems and risks of housing finance, (b) the requirements of housing finance to meet both housing backlog and annual deterioration of the housing stock and (c) the availability of housing finance through various agencies. Manoj (2010) has opined that formal system for housing finance in India is primarily dominated by two major types of institutions viz. Commercial banks (CBs) and Housing finance companies (HFCs). This paper aims at (i) making an overall review of the emergence of

the institutional system for housing finance in India and to trace the broad pattern of its composition over the years. (ii) studying the major problems and challenges faced by HFCs particularly in comparison with CBs the other major group (iii) suggesting suitable strategies for enhanced operational efficiency of HFCs in India. Malhotra (1991) has articulated that a well managed housing finance institution could expect not only to serve a laudable social objective of helping people to procure shelter but also to earn reasonable profits.

Chellam (2009) has analyzed the role of commercial banks in providing housing finance and also analyzed problems being faced by the beneficiaries in getting housing loan from SBI in Sivagangai District. Rani (2012) has articulated that a home loan is a long term commitment of 15-20 years, several factors like expertise, quality of service commitment and transparency right through the loan procedure the line print etc. The main objective of the bank is to promote and establish the housing financial institutions in the country as well as to provide refinance facilities to housing finance corporation and scheduled commercial banks. After review of earlier studies on housing finance it is found that very few studies considered this aspect of finance and other studies are mostly on problems of borrowers and macro level analysis of performance of financial institutions and banks. It reveals the need of research on housing loan policy of a bank and its comparative analysis with that of other banks. So the same issue has been analyzed in this paper.

METHODOLOGY

This is a case study of housing loan policy of Kolhapur Urban Cooperative Bank Ltd. But it is supplemented by comparative analysis of home loan policy formulated by Kolhapur Urban Cooperative Bank and other banks.

Data Collection

The primary data have been collected by using (i) structured interview schedule and (ii) observations in the bank. It has been supplemented by the discussion with the branch managers. The secondary data have been collected by going through reports published by Kolhapur Urban Cooperative Bank and other banks and RBI. Other secondary sources have also been used like books, research papers, magazines and different web-sites etc.

Sample Size

In the first stage of sampling, the Kolhapur Urban Cooperative Bank's Khasbag Branch in Kolhapur city has been selected as a sample unit for case study. In second stage of sampling, the borrowers of housing loan have been

Table 1: Sample size of HL Borrowers

Particulars	ICICI Bank	Bank of India	KUC Bank
Universe	128	155	101
Sample Selected	15	15	20

selected by judgmental sampling method for the comparison purpose as shown in Table 1.

DISCUSSION

The discussion has been divided into two sections as first section covers the comparative analysis of home loan policy of KUC Bank and other banks. The second section covers identifying the problems being encountered by borrowers of housing loan.

Comparison of Banks

The ICICI Bank is applying different strategies such as door step service, easy and minimum documentation, sanction and disbursement TAT but the ICICI bank is not offering attractive interest rate because the PLR of ICICI Bank is high as compared to Bank of India. Bank of India is offering attractive interest rate and personalized banking services and but it is not applying other strategies due to lack of professional approach like sales team whereas Kolhapur Urban Cooperative Bank is following strategy of easy and minimum documentation. The strategies used by the banks are shown in Table 2. Hence it is clear that banks are

following different strategies to attract the borrowers for making use of their facilities or loans.

The banks give more or less priorities for different strategies, according to their convenience. ICICI bank has preferred door step service due to competition in banking sector. Bank of India has preferred to rate of interest because maximum borrowers believes in national bank due to the competitive rate of interest. Kolhapur Urban Cooperative bank has preferred easy and minimum documentation. Rate of interest is one of the important factors in case of borrowers housing loan. The banks are providing two types of interest rates i.e. Floating and Fixed which is shown in the Table 3

Hence it is clear that lower interest rate is charged by Bank of India as compared to other banks. Minimum income slab is different for various banks as per their rules and regulations for providing home loans to borrowers. ICICI Bank has provision of minimum income slab for each borrower i.e. Rs 7000 per month for salaried for self employed professional and for non-professionals, whereas Bank of India and Urban Cooperative Bank doesn't have minimum income slab. Maximum age limit at the time of loan maturity is fixed so as to recover the loan installment in time. The different banks are using different age limit at the time of loan maturity as shown in Table 4

Table-2: Strategies of the bank

Strategy	ICICI Bank	Bank of India	KUC Bank
Door step service	✓	x	x
Easy and Minimum Documentation	✓	x	✓
Sanction TAT	✓	x	x
Disbursement TAT	✓	x	x
Attractive Interest Rate	x	✓	x

(Source: Field Survey).

Table 3: Rate of Interest

	ICICI Bank		Bank of India		KUC Bank	
	Floating	Fixed	Floating	Fixed	Floating	Fixed
Up to 5 years	10.75%	11.25%	9%	9.50%		
5-10 yrs	8.50%	8.50%	8.50%	8.50%	13%	12%
10-20 yrs		9.55%	9%	10%		13.25%

(Source: Field Survey).

Table 4: Maximum age limit at the time of Loan maturity

Income slab	ICICI bank	Bank of India	KUC bank
For Salaried	58 years	58 years	55 years
Self employed professional	65 years	65 years	60 years
Self employed non- professional	60 years	65 years	50 years

(Source: Field Survey).

Hence it is clear that the age limit of borrowers is lower in Kolhapur Urban Cooperative bank as compared to other banks.

The banks have different term for housing loans to repay the loan amount. A term for housing loan is maximum i.e. 10 years or 20 years as compared to any other type of loan. ICICI Bank has given term for loan period i.e. for salaried 20 years, for professionals 15 years and for non- professionals 10 years. Bank of India has loan period of 20 years, Kolhapur Urban Cooperative bank has loan period of 10 years for self-employed and 15 years for salaried and self-employed non-professionals respectively.

The banks take into consideration the type of property for housing loan. The banks get benefit to recover installment through disposal of properties such as N.A. Plot, Bungalow and Flat etc. Bank of India and Kolhapur Urban Cooperative Bank has given loan for all type of property i.e. Non-agriculture plot, Bungalow, Row house and Flat, but ICICI bank has not financed to Non-agriculture plot.

The security of the loan is the first and exclusive charge of the property to be financed by way of mortgages. The bank of India has been accepting equitable mortgage and registered mortgage whereas ICICI has accepted only equitable mortgage since process of registered mortgage is complicated and expensive, whereas Kolhapur Urban Cooperative bank is accepting only registered mortgage.

Problems Encountered by Borrowers of Housing Loan

If the borrower has less income source and he doesn't have sufficient property to keep as mortgage in the bank, due to lack of income source, borrower can face difficulty in getting loan because expenditure depends upon occupation, and to survive everyone has to do some occupation. Hence it is observed that majority of the borrowers i.e. 34% are from government service class since they get good salary. They have permanent job, so they feel secure in life and take a loan for various facilities comparatively other working class.

Another problem faced by borrower is due to uncertainty of job because bank demands security for repayment of loan. A person who works in private sector may feel unsecured due

to recession or many other factors affecting the job. The borrowers may attract if the rate of interest is low or average. It is observed that majority of the borrowers i.e. 46% opined that bank rate of interest is high it means they are borrowing loan from private sector.

In some cases, borrower finds a problem in collecting various documents which are required in getting housing loan because through documentation bank get assurance about borrowers property. On the basis of documentation and after verifying it, bank sanctions a loan.

Monthly expenditure depends upon income source, if the expenditure is high the borrowers can face the problem in paying installment and borrowers can't fulfill the loan amount in definite period. Amount of loan and duration of installment depends upon financial condition and monthly expenditure of every borrower. Hence it is observed that majority of the borrowers i.e. 34% have monthly expenditure below Rs. 12000/-. So it is observed that expenditure of borrower is different according to their income.

LIMITATIONS OF THE STUDY

1. The period of study is restricted to only five years (i.e. 2004-05 to 2008-09).
2. The case study method has its own limitations.

RESULTS

Findings

1. It is observed that ICICI bank has preferred 'the door step service' and sanction 'TAT services for loan' but Bank of India has preferred 'attractive interest rate' and Kolhapur Urban Cooperative Bank has preferred to 'easy and minimum documentation'.
2. Lower interest rate is charged by Bank of India as compared to other professional banks and KUC Bank.
3. ICICI and other banks apply lower income slab provision as compared to that of Bank of India and KUC bank.

Table 5: Demographic Profile

Variables	
Age Group	a) 18-25(30%) b)25-40(42%) c)40-55(20%) d)55&above(8%)
Occupation	a) Government servant (34%) b) Private employees (16%) c) Business (30%) d) Professionals (20%)
Income group	a) Upto Rs.75000 b) 75000-100000(34%) c)100000-150000(36%) d) 150000&above(30%)
Type of House property	a) Bungalows(28%) b) Row house(16%) c)Flat(44%) d) N.A. plot(12%)

(Source: Field Survey).

Table 6: Opinion about Housing Loan Policy

Media of information	a) Television (4%) c) Newspaper d) Relatives & friends (66%) e) Magazines (4%) f) Sales team (12%)	b) Trade fair (14%)
Purpose of loan	a) Self (80%) c) Any other (4%)	b) rental (16%)
Investment avenues	a) Post office (26%)	b) bank deposit (48%) c) Bhishi (26%)
Factors affecting on bank borrowers	a) Rate (36%) c) Easy documentation (16%) d) Processing fee (12%)	b) Service (36%)
Procedure of documentation	a) Easy documentation (64%) b) Complicated documentation (36%)	
Quickness of getting loan	a) Yes (60%)	b) No (40%)
Additional charges	a) Yes (34%)	d) No (66%)
Rate of Interest	a) High (46%) c) Average (32%)	b) Low (22%)
Promptness of EMI payment	a) Yes (84%)	b) No (16%)
Monthly expenditure of borrowers	a) Rs 7000-9000 (34%) b) 9000- 12000 (38%) c) 12000 & above (28%)	
Effect on expenditure	a) Yes (62%)	b) No (38%)
Effect on expenditure on child education	a) Yes (36%)	b) No (64%)
Deduction of installment through payment	a) Yes (44%)	b) No (56%)
Opinion about bank services	a) Satisfied (74%)	b) Dissatisfied (26%)

(Source: Field Survey).

4. Age limit of borrowers is lower in KUC bank as compared to other banks.
5. A term of loan for all the banks is 10 to 20 years, which is uniform.
6. KUC bank accepts registered mortgage only and ICICI

Bank accepts only equitable mortgage.

7. It is observed that majority of the borrowers are government servant (34%) because government servant get good salary and they have permanent job.

8. Majority of the borrowers' (36%) income is below Rs. 150000/- it means these borrowers are from middle-class.
9. Majority of the borrowers (36%) were aware of the rate of interest of the KUC Bank.
10. As majority of the borrowers (46%) opined that bank rate of interest is high; they are borrowing loan from private and cooperative bank but other borrowers opined average or low interest rate, it means they have taken loan from nationalized bank.
11. The monthly expenditure of borrowers who have taken loan from KUC Bank has affected due to the deduction of installment of loan whereas borrowers of Bank of India are less affected because they do proper plan for the repayment of loan.

Suggestions

1. At the time of giving loan, bank should follow RBI guidelines. Bank should consider securities before sanctioning the loans and check the financial position of the borrowers.
2. The bank should provide better supplementary services like door step service, sanction and disbursement to create more good relationship in society.
3. The bank should implement advertising strategy and should consider more on Medias like T.V, Magazines and Trade Fair etc for awareness in people, and for expanding turnover of the bank.
4. The rate of interest of the bank should be less as per the borrower's convenience; this will help to increase the members of the bank so that bank's customer base will increase.
5. The bank should arrange the visit to borrowers' units and see whether the loans are used properly for the purpose or not.

CONCLUSION

The Kolhapur Urban Cooperative bank has formed an important housing loan policy in the banking sector to provide access to credit, to low income and middle class people to construct their houses or purchase the flat in apartments. The Kolhapur Urban Cooperative bank still have an edge on public sector banks in terms of their proximity

to their customers and a helpful attitude of their staff to cater the needs of their members. The bank has prepared loan policy, with the introduction of sensitive norms like assets classification provisioning it has become a necessary to keep close watch on the assets to keep them always in standard category. In KUC Bank, the members who are having deposits above 1 lakh get "Deposit Security Fund". Probably Kolhapur Urban Cooperative Bank may be only Bank in India having such fund.

With some improvements, bank can again improve the home loan policy with considering the suggestions given in this paper. Housing loan policy of Kolhapur Urban Cooperative Bank is customer oriented in respect of various services provided by bank i.e. easy documentation, less processing fee, average interest rate and quick service of the bank.

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