

AN OVERVIEW OF HOME LOAN SEGMENT OF PUBLIC AND PRIVATE SECTOR BANKS IN NAGPUR REGION

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ABSTRACT

The new millennium has started in right earnest for the housing sector in India. Our nation's greatest opportunity now is the vision to construct an improved life for our people. Home is a basic need of an individual, after food and clothing. Each person dreams of having his own home. Owing to the skyrocketing prices of properties, it has almost become difficult for an average earning human being to purchase a house on a lump sum payment. Once in a lifetime investment require home loan to accomplish it and that is how the home loan comes into existence. In last decade the demand for home loans has increased multiple. There are many banks and housing finance companies offering home loans at an attractive interest rate. There are greater number of borrowers/ customers of home loans. A housing loan is a long-term commitment which is crucial. The paper will give overview of home loan segment of public and private sector banks in Nagpur region. The paper also seeks to give the vital information of home loan technicalities for the customers applying for home loan and important vital points for banks to make home loans more customers friendly and safe.

KEYWORDS: Home Loan, Housing Finance, Customers, Public Sector Banks, Private Sector Banks.

Introduction

In the study, mostly the term used as 'home loan' and 'housing finance' are inter changeably. Each person dreams of having his own home. Home is a basic need of an individual, after food and clothing. Owing to skyrocketing prices of properties, it has almost become difficult for an average earning human being to purchase a house on a lump sum payment. Once in a lifetime investment require home loan to accomplish it and that is how the home loan comes into existence. Our nation's greatest opportunity now is the vision to construct an improved life for our people. Due to skyrocketing prices of realty in India, home complexes boom and city landscape becoming indistinguishable, the development across all real estate segment and experts estimate that the demand for home loan will remain constant at the high levels because of the improving economic environment and the real estate sector is expected to raise 30% every year. This rising property prices encourage housing financial institutions and banks to lend more with enhance in collateral value. The demand for home loans will not decline much because there is a steady rise in the income generating potential of Indian youth. Thus this particular section will carry on the home loan demand tall and increased lending rates can only delay their plans for some time. In last decade the demand for home loans has increased multiple. There are many banks and housing finance companies offering home loans at an attractive interest rate. There greater number of borrowers/ customers of home loans. Housing finance is very broad topic, the conception of which may vary across countries, regions and the areas it covers.

Research Methodology

Objectives of the Study

- To overview a home loan segment and to know the reasons and benefits for taking home loans.
- To study home loans schemes of Public sector banks (SBI & BOI) & Private sector banks (HDFC & ICICI).

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- To suggest / recommend the important vital points for the customers applying for home loan.
- To suggest / recommend the importance areas of loan scheme for developing home loans more customer friendly and safe from bank point of view.

Collection of Data

Secondary data is collected for this study. The data is collected from various books, articles published in magazines, journals, newspaper, reports of Public Sector Bank (SBI & BOI) & Private Sector Bank (HDFC & ICICI), websites, circulars, brochures of banks, etc.

Selection of the Various Banks

For this study Two Premium Public Sector Bank & Two Premium Private Sector Bank offering home loan in Nagpur Region are selected:

- Public Sector Banks - SBI & BOI
- Private Sector Banks - HDFC & ICICI.

Meaning of Home Loan

Home loan may also be called as mortgage loan. Home Loan is the finance that buyers borrow from housing financial institutions or banks to buy a property. Home loan is generally secured, with a registered mortgage to housing financial institution or bank over the property being purchased. Home loan consists of floating or fixed rate of interest and payment terms.

Types of Home Loan

- **Home Purchase Loan:** This is the basic form of home loan used to buy a new home. When the customers have found their dream home, they chalk out ways to avail best and decent home purchase loans.
- **Home Improvement Loan:** This loan is available for repair works, renovations and healings in a home that has already been purchased. Home improvement loan is used to finance improvements to the existing set of credentials of beauty on borrower owned house.
- **Home Construction Loan:** This loan is given for the construction of a new house. Home construction loan is used to finance for the construction of borrower newly acquired home or if borrower is planning to build a home. Home construction loan helps borrower to draw the payments in stages. The factors that are considered for the calculation of home building costs are: construction cost, design of the home, buildable site and financing cost.
- **Home Extension Loan:** This loan is available for expanding an existing house. Home extension loan is used by borrower to get loan from the bank to extend their home, by adding extra rooms, wash rooms, kitchens, terraces for their growing family.
- **Home Conversion / Equity Loan:** Home conversion loan is available for those who have financed the present home with a home loan and wish to buy and shift to another home for which some extra finances are required. Home equity loan help customer to encash the market value of the property by taking a loan by mortgaging the property.
- **Land Purchase Loan:** This loan is given to purchase land for both construction and investment purposes. Land Purchase loan is used by customers who desire to purchase a land for commercial or residential purpose.
- **Bridge Loan:** Bridge loan is planned for people who desire to sell the existing house and buy another one. The bridge loan helps finance the new home, until a borrower is found for the home.
- **Mortgage Loan:** Mortgage loan is used by customers who desire to mortgage their property on an attractive interest rate from the banks. The mortgage loans allow the borrower to apply for loan against a fixed asset.

Benefits to Borrowers of Home Loans

The most important benefits to the borrowers of Home loans are as follows:

Home Loan at affordable Interest Rates

Generally, there are two types of Rate of Interest, the customer / borrowers have the choice to choose the type of Rate of Interest for the Home Loan.

- **Floating Rate of Interest:** Rate of Interest which varies with the market lending rate. This means that there is an element of risk of paying more than budgeted amount in case the lending rates goes up.
- **Fixed Rate of Interest:** Rate of Interest remains fixed throughout the period / tenure of loan.

- **Repayment schedule on the basis of Earning Capacity**

Repayment period can be from 12 months to 360 months i.e. 1 year to 30 years for home loan. During this period borrowers have to pay fixed monthly payment and this payment is called EMI – Equated Monthly Installment. Repayment Schedule of home loan is generally based on income earning capacity of the borrower.

- **Tax Benefits of Home Loan**

As per the provisions of the Income Tax Act, 1961, borrower can claim tax benefits on both the principal (under Section 80C) and interest components [under Section 24(b)] of the home loan. These deductions are available to assesses who have taken a home loan to either buy or build a home.

- **Facility of Joint Loan**

Sometimes, customer want a larger amount of home loan but his/her income is not enough to secure the loan amount and his/her wife/husband or son are earning, then they can apply for home loan in joint name. This is treated as the joint loan application, with one person as main applicant and another as co-applicant. Generally, spouse is made co-applicant.

- **Help in Owning a Home**

Today, owning home is no more a treasure dream and difficult task that require lifetime saving. People are looking forward for owning their own houses on the base of these home loans provided by almost every bank today.

Benefits to Banks Offering Home Loans

Housing loan is spread over a large number of accounts and the average share of individual account is relatively low, the risk of recovery is considerably less. Moreover, since the larger part of this home loan is given against mortgage of personal property, the propensity of default is very low. That low risk of recovery has played a vital role in pushing up bank's exposure on home loan may be evident in their reluctance to invest in sensitive sectors where risk is higher.

Home Loan Schemes of Public Sector Banks

- **State Bank of India: SBI Home Loans**

State Bank of India has following types of Home Loan schemes under which they provide finance:

- SBI-Flexi Home Loans
- SBI-Maxgain Home Loans
- SBI-Realty Home Loans
- SBI-NRI Home Loans
- SBI-Pre Approved Home Loan
- SBI-Tribal Plus
- SBI-Gram Niwas
- SBI-Sahyog Niwas
- SBI-Green Home Loans

Eligibility Criteria (SBI)

Basis	SBI	Basis	SBI
Eligibility	Min. age: 18 years Max. age: 70 years	Repayment Period	Maximum 30 years
Max. Loan Amount	Upto 10 crore	Margin / LTV Ratio	Upto 90%
Rate of Interest	9.35% - 9.4% Floating	Processing Charges	0.35% of loan amount, Min. Rs.2,000 & Max. Rs. 10,000. (Plus Taxes)
Lowest EMI	Rs.830/- per Lakh for 30 years.		

- **Bank of India (BOI): Star Home Loans**

Bank of India has following types of Home Loan schemes under which they provide finance:

- BOI Star Home Loan
- BOI Star Diamond Home Loan
- BOI Star Loan against Property
- BOI Star Smart Home Loan
- BOI Star Pravasi Home Loan

Eligibility Criteria (BOI)

Basis	BOI	Basis	BOI
Eligibility	Min. age: 18 years Max. age: 70 years (65 years for salaried)	Repayment Period	Maximum 30 years
Max. Loan Amount	Upto 5 crore	Margin / LTV Ratio	Upto 85%
Rate of Interest	9.7% - 9.95% Floating	Processing Charges	0.25% of loan amount, Min. Rs.1,000 & Max. Rs. 10,000. (Plus Taxes)
Lowest EMI	Rs.855/- per Lakh for 30 years.		

Home Loan Schemes of Private Sector Banks

- **HDFC Home Loans**

HDFC has following types of Home Loan schemes under which they provide finance:

- Home Purchase Loan
- Pre-Approved Loan Scheme
- NRI Home Loan
- Home Loan Transfer Loan
- Home Improvement Loan (HIL)
- Home Extension Loan
- HDFC Special Home Loan for Agriculturists
- HDFC Rural Housing Finance

Eligibility Criteria for Home Loan (HDFC)

Basis	HDFC	Basis	HDFC
Eligibility	Min. age: 21 years Max. age: 65 years (60years for salaried)	Repayment Period	Maximum 30 years
Max. Loan Amount	Upto 10 crore	Margin / LTV Ratio	Upto 90%
Rate of Interest	9.4% - 9.95% Floating	Processing Charges	0.5% of loan amount, Max. Rs. 10,000. (Plus Taxes)
Lowest EMI	Rs.834/- per Lakh for 30 years.		

- **ICICI Home Loans**

ICICI Bank has following types of Home Loan schemes under which they provide finance:

- Home Loan
- Home Improvement
- Land Loan
- EMI Under Construction
- Balance Transfer Loan
- Top-Up Loan
- Office premises loan
- Home Loans for Non Resident Indians
- Saral Rural Housing Loan
- Loan against property

Eligibility Criteria for Home Loan (ICICI)

Basis	ICICI	Basis	ICICI
Eligibility	Min. age: 21 years Max. age: 65 years (60 years for salaried)	Repayment Period	Maximum 30 years
Max. Loan Amount	Upto 10 crore	Margin / LTV Ratio	Upto 90%
Rate of Interest	9.4% - 9.45% Floating	Processing Charges	0.5% of loan amount, Min. Rs.2,500 & Max. Rs. 10,000. (Plus Taxes)
Lowest EMI	Rs.834/- per Lakh for 30 years.		

Documentation

Following are the necessary documents required for availing home loan:

Documentation	Salaried	Self Employed
Income Proof & Bank Account details	Statement of Bank Account / Passbook for last 6 months, Form-16, Income Tax Returns etc.	ITR Copies for last 2 years, Certified Balance Sheet and Profit & Loss Account, Bank Statement from operating account etc.
Proof of Address , Age, Identity & Signature (Any one for each proof)	PAN Card, Passport, Driving License, Voter's Card, Recent Utility Bill, Property Tax Receipt, etc.	
Documents of Property	Agreement of Sale, Sale Deed, Letter of Allotment, Non-encumbrance Certificate, Building / Land Tax paid receipt. For New Construction: Copy of approved Plan and Approval from Local Body.	

*The customer have to submit the documents mentioned above of the property in original to bank, original documents would remain in the bank's custody until the home loan is fully repaid.

• Essentials of Procedure for Availing Home Loan

The following are the essentials:

- Determination of Loan amounts (Quantum of Finance)
- Repayment Ability Calculation
- Debt –Serving Capacity
- Determination of Income
- Clubbing Relative's Incomes (Co-applicant)
- Cost of the Property
- Insurance of property
- Security
- Personal guarantee

Procedure for Availing Home Loan

Here are step by step processes that will guide us and build a foundation of knowledge about the home loan borrowing process:

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| Step 1 | Application Form for Home Loan. |
| Step 2 | Personal Discussions (Bank & Borrower) |
| Step 3 | Field Investigation by bank |
| Step 4 | Credit appraisals and loan sanction by the bank |
| Step 5 | Offer letter to borrower |
| Step 6 | Submission of Legal documents by borrower & legal check by bank |
| Step 7 | Technical / valuation check process |
| Step 8 | Valuation process |
| Step 9 | Registration of property documents. |
| Step 10 | Signing of agreements |
| Step 11 | Disbursement of Home Loan. |

Suggestions for Borrowers of Home Loan

Without placing the house on a solid foundation it cannot weather a disaster. Building a foundation of knowledge about the home loan borrowing process is equally important. Here are suggestions for home loan borrowers which they must consider: Buying a home is one of the major decisions that a person has to take in his life. A home loan is a long-term commitment which is crucial. The best way for getting home loan in a smooth and simple way is being familiar with the entire home loan process.

Borrowers should consider following factors while availing home loan: Requirement (buying from builder, constructing by self, repairs, investment) Affordability (self-income, co-applicant income), and credit record. Before availing home loan the borrowers must compare all different services provided by different banks and select the best one in order to make it more competitive and customer friendly. Some important factors borrowers must compare while selecting lender are: low interest rate, speedy sanction, easy accessibility, loan eligibility, no unwanted queries, less processing fee, low margin money, convenient repayment, no pre-closure charges, Equated Monthly Instalments (EMI), loan tenure, and insurance optional.

Suggestions for Banks Offering Home Loans

Banks should use simple and easiest procedure to sanction home loans to the customers. The loan passing process of public sector bank should be quicker like a private sector bank. Timely, transparent sanction and disbursement process should be done by bank. Banks employees who deal with borrowers/ customers should have complete information about the home loans schemes offered by bank. Bank should give more personal attention to the customers and working competence should be increased. Interest rate should be less and competitive. Bank should offer free accident insurance cover for home loan customers. Bank should take proper steps to educate borrowers about housing finance guidelines, cost of capital and mode of operation through its marketing policy. Bank should consider present competitive environment and act according to the borrowers / customer's needs. Bank should evaluate their services and identify their distinction from others by focusing on the factors influencing the choice of customers while availing home loan. These are important vital points which will be helpful to satisfy the customers.

Conclusion

The demand for home loans is rising rapidly. In the depth of the information explosion, sometimes borrowers/ customers find it difficult to decide on the right bank for availing home loan. Basic information of home loan technicalities helps customer to select right lender for availing home loan. Both public and private sector banks are focusing on the factors influencing the choice of customers while availing home loan and making home loan schemes more customers friendly and safe.

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