

LOANS HOME LOAN APPRAISAL PRACTICE IN INDIAN BANKING SECTOR

DR. C SUDEEP

Principal and Professor
M.C.Gupta College of Business
Management

S. JAGAN MOHAN KRISHNA

Student,
M.C.Gupta College of Business
Management

ABSTRACT

A home loan given by a bank, home loan company or other financial institution for the purchase of a residence either a primary residence, a secondary residence, or an investment residence—in contrast to a piece of commercial or industrial property. In a home mortgage, the owner of the property (the borrower) transfers the title to the lender on the condition that the title will be transferred back to the owner once the final loan payment has been made and other terms of the mortgage have been met. A home mortgage is one of the most common forms of debt, and it is also one of the most recommended. Because they are secured debt—there is an asset (the residence) acts as backing for the loan—mortgages come with lower interest rates than almost any other kind of loan an individual consumer can find. Home mortgages allow a much broader group of citizens the chance to own real estate, as the entire purchase price of the house doesn't have to be provided upfront. But because the lender actually holds the title for as long as the mortgage is in effect, it has the right to foreclose on the home (seize it from the homeowner, and sell it on the open market) if the borrower can't make the payments.

INTRODUCTION

A home loan is a type of loan in which the borrower uses the equity of his or her home as collateral. The loan amount is determined by the value of the property, and the value of the property is determined by an appraiser from the lending institution. Home equity loans are often used to finance major expenses such as home repairs, medical bills, or college education. A home equity loan creates a lien against the borrower's house and reduces actual home equity.

Most home equity loans require good to excellent credit history, reasonable loan-to-value and combined loan-to-value ratios. Home equity loans come in two types: closed end (traditionally just called a home-equity loan) and open end (a.k.a. a home-equity line of credit). Both are usually referred to as second mortgages, because they are secured against the value of the property, just like a traditional mortgage. Home equity loans and lines of credit are usually, but not always, for a shorter term than first mortgages. Home equity loan can be used as a person's main mortgage in place of a traditional mortgage. However, one cannot purchase a home using a home equity loan, one can only use a home equity loan to refinance. In the United States until December 31 2018, it was possible to deduct home equity loan interest on one's personal income taxes. As part of the 2019 Tax Reform bill signed into law, interest on home equity loans will no longer be deductible on income taxes.

Are you looking for a home loan? If yes, read our article Introduction to Home Loans on BankandFinance.com and educate yourself before you start applying for house loans. Almost every citizen wishes to purchase their own house in their name and in this day and age, land and property prices have increased significantly, offering an attractive investment for individuals in India.

An individual who is looking for housing loans should be aware of all his requirements and then he/she can search for housing finance services in India. Without knowing the requirements, it is difficult to understand the process of a home loan. A borrower who is ready to go for house loans should check their monthly incomes and the location of the borrower. You will also want to look into getting home insurance quotes for your new home. Given the present economic conditions, the prices of properties are rapidly on the rise especially in the major cities across India. This is making it difficult for middle class families to afford these huge investments. Keeping this fact in mind, bank of mortgage services in India considered these facts and came up with attractive mortgage interest rates so that the middle-class families can take a home lending bank loan. Borrowers should consider each and every aspect of home lending from selecting the property to closing the finance loan amount.

The borrowers will be maintaining a long-term relationship with the finance company so it is wise to take a loan from a bank which you feel comfortable with. The core function of commercial banks is granting of credit. Although banks offer a wide spectrum of financial services, lending has traditionally been their main function. Banks profess experience, expertise and flexibility in lending which gives them a clear competitive advantage over other financial institutions. Lending of funds to businessmen, traders and industrial enterprises is one of the most important activities of a commercial bank.

OBJECTIVES

The following are the objective of the present study:

- To know the more objective of this study is to know the Customers perceptions about home loans of **KOTAK** housing development finance corporation LTD.
- To know Indian home loan market and its growing trends
- To know various methods of operating a home loan
- To know knowledge about various home loan products
- To know various rates available while providing home loan.

SCOPE OF THE STUDY

- The study is undertaken at **KOTAK MAHINDRA LTD** The scope is limited to the extent of details study of various lending schemes at **KOTAK MAHINDRA LTD** Disbursement analysis is done in case of important lending schemes for the past 5 years.
- The study is mainly concentrated on the lending practices pattern and influence in the organization's performance. To know more about the loans and advances which help us to explore future prospects.
- The operational jurisdiction of the research is limited to **KOTAK MAHINDRA LTD** The scope covers all loan schemes of **KOTAK MAHINDRA LTD**

NEED OF THE STUDY

In the era of growing importance of financial status, there is an increased importance for various financial institutions which provide such loans.

The main objective of the study of the loans and advances is to understand the lending policies and the various schemes of financial assistance provided by the bank. The bank works comparatively different from other financial institutions and banks as it works according to the rules and regulations and the guidelines by the RBI.

In the post reforms period, banks are facing tough competition due to interest rate regime. In today's buyers' market, banks are facing cutthroat competition. Hence, they are introducing new loan products to meet the requirements of the various segments of the society to know the importance of the retail lending in banks.

In this background the topic of personal lending schemes of KOTAK MAHINDRA LTD HOUSING FINANCE is chosen as the subject matter of this project. The findings of the project may be considered by KOTAK MAHINDRA LTD HOUSING FINANCE PVT LTD while formulating the policies for increasing the volume of personal lending schemes.

ABOUT COMPANY

- Kotak Mahindra Bank Limited is an Indian banking and financial services company headquartered in Mumbai. It offers banking products and financial services for corporate and retail customers in the areas of personal finance, investment banking, life insurance, and wealth management. It is India's third largest private sector bank by assets and by market capitalization as of November 2021. As of February 2021, the bank has 1600 branches and 2519 ATMs.
- In 1985, Uday Kotak founded what later became an Indian financial services conglomerate. In February 2003, Kotak Mahindra Finance Ltd. (KMFL), the group's flagship company, received a banking license from the Reserve Bank of India. With this, KMFL became the first non-banking finance company in India to be converted into a bank.
- Kotak Bank acquired ING Vysya Bank in a deal valued at ₹150 billion (US\$2.0 billion). With the merger completed, Kotak Mahindra Bank had almost 40,000 employees, and the number of branches reached 1,261. After the merger, ING Group, which controlled ING Vysya Bank, owned a 7% share in Kotak Mahindra Bank.
- In 2021, the bank acquired a 9.99% stake in Ferbine, an entity promoted by Tata Group, to operate a Pan-India umbrella entity for retail payment systems, similar to National Payments Corporation of India.

RESEARCH METHODOLOGY

Research methodology is a way to systematically solve the research problem. It is a way of written game plan for conducting research. In this we describe the various steps that are taken by a researcher. So, it is therefore desirable to design a research methodology. For this research the research methodology is designed as under:

Housing loan is one of the emerging portfolios of both Private and Public sector banks. The national housing policy of the Government of India emphasize that the incentive to be given to customers buying residential properties. Accordingly, in income tax there has been concessions / tax sops for the individual buyer for home use.60-65%

Tax sops given by the government for housing loans have been instrumental in driving growth in this sector. The government allows tax benefits to both the home loan consumer and the lender.

SAMPLING DATA COLLECTION

- **Primary Data:** For the collection of primary data, researcher constructed and administered a pretested structured questionnaire from the borrowers and officers' executives of the selected banks. Institutional questionnaire was framed to collect the responses from bankers and the individual questionnaire was constructed to collect the responses from the urban population who have borrowed at least one of the loans mentioned earlier from the selected banks and their sister concerns during the years 2015 to 2019.

1. Home Interview
2. Questionnaire

- **Secondary Data:** For the secondary data, the pamphlets, Annual reports, Articles, Newspapers books and Websites of various schemes from different banks have been obtained.

TOOLS AND TECHNIQUES:

Calculation of EMI, Repayment Ability, Interest Rate- simple interest, Compound interest

1. Computation of EMI is calculated with the help of the following formula:

$$EMI = L \times r \times (1 + r)^n / ((1 + r)^n - 1)$$

Where, L – Loan Amount

R – Rate of Interest in Decimals

N – Period of loan (in years).

2. Repayment Ability

Homan loan eligibility Rs .in lakh = amount determined by the bank as available for loan repayments/loan installments per lakh Rs. for the selected tenure.

3. Simple interest = $P \times R \times T / 100$

4. Compound interest = $P(1+i)^t - P$

LIMITATIONS

This study also includes some limitations which have been discussed as follows:

- The sample size of 100 customers might prove a limitation because of difficulty in generalization of results.
- To collect the data from various banks was quite difficult due to non-cooperation of some banks. This proved to be major limitation of the study.
- To access such a large number of customers was difficult because of non-cooperative attitude of respondents.
- Lack of data was also the other limitation of the study as some of banks do not have proper data on topic.
- There was limitation of time to conduct such a big survey in limited available time.
- Ignorance and reluctant attitude of customers was also a major limitation in this study.

Thus, above all were the limitations in this research study. The maximum efforts were made to overcome these limitations in the study.

CHAPTER SCHEME [CHAPTERISATION]

The present study is divided into seven chapters.

Chapter One

Deals with the introduction to the study, gives a brief account of its background, Objectives of the study, Need of the study, Scope of study, limitations of the study.

Chapter Two

Covers the review of the related literature including aspects of similar studies.

Chapter Three

Discusses the overview of KOTAK MAHAINDRA in general and about Company Profile.

Chapter Four

Deals with the concept of HOME LOAN APPLICATION.

Chapter Five

Deals with research design and research tools has the data analysis and interpretation.

Chapter Six

Data analysis and interpretation.

Chapter Seven

The summary of the findings and suggestions, conclusion of the study and recommendations for future research.

ANALYSIS & INTERPRETATION

The analysis is based on the responses given by customers through questionnaires.

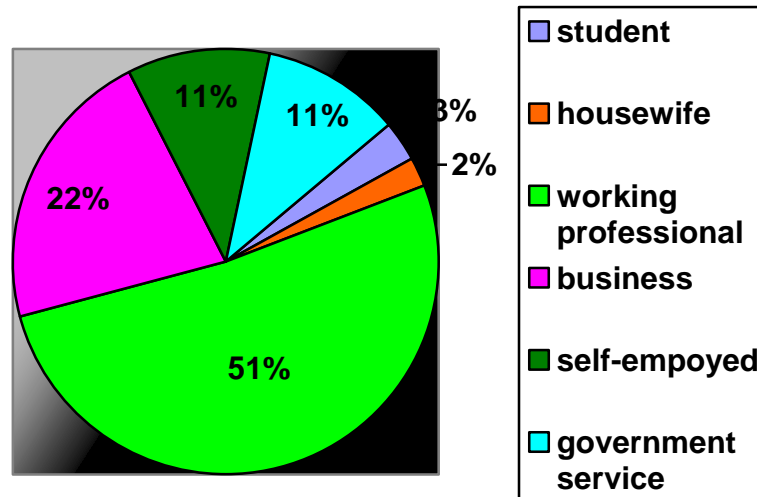
CUSTOMER PROFILE OF SURVEYED RESPONDENTS

TABLE 5.5:

Customer profile	No. of respondents
------------------	--------------------

Student	7
Housewife	5
Working Professional	116
Business	49
Self Employed	24
Government service employee	24

Chart-5.5



Interpretation

From the table and graph above it can be seen that:-

51% of the respondents are working professionals, 22% are into business and 11% are self-employed, 11% of the respondent’s are government service employee and 3% of the respondents are student and 2% of the respondents are house-wife.

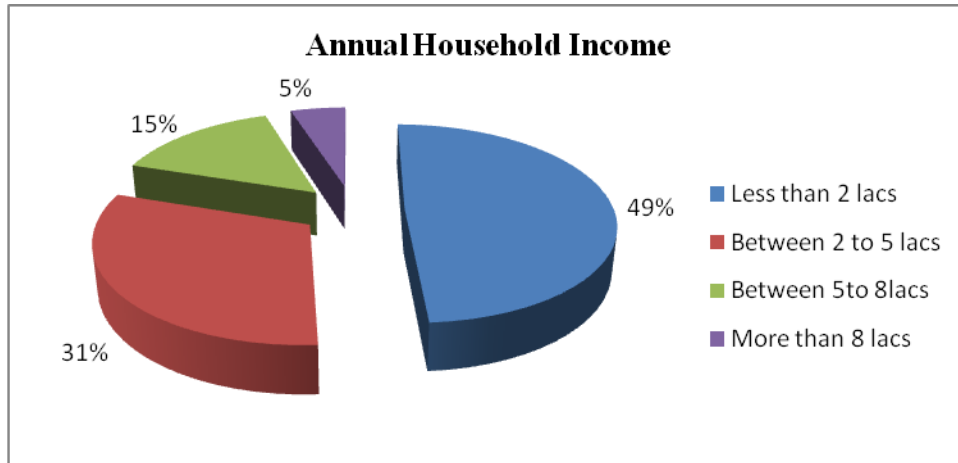
ANNUAL HOUSE HOLD INCOME?

TABLE-5.6

Sr. No.	Category	No. of Respondents	Percentage
1	Less than 2 lacs	98	49%
2	Between 2 to 5 lacs	62	31%
3	Between 5to 8lacs	30	15%
4	More than 8 lacs	10	5%
	Total	200	100%

Base 200 respondents

CHART-5.6



Interpretation

From the table and graph above it can be seen that

- 49% respondent’s annual household income is less than 2 lacs.
- 31% respondent’s annual household income is between 2 to 5 lacs.
- 15% respondent’s annual household income is between 5 to 8 lacs.
- 5% respondent’s annual household income is more than 8 lacs.

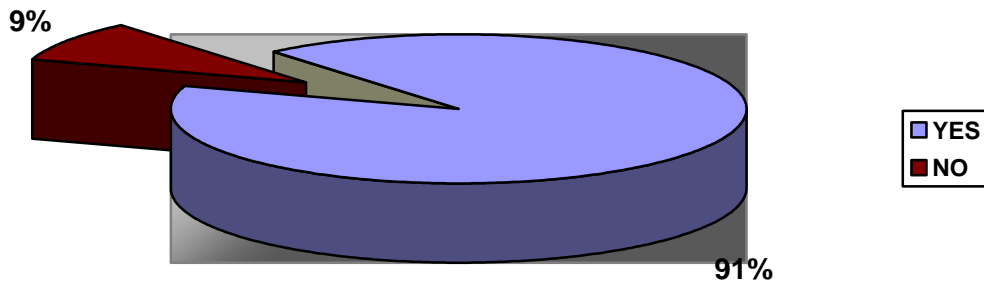
Do you know about HDFC housing development finance corporation Ltd?

TABLE 5.7:

Category	No. of Respondents
Yes	164
No	16

CHART:-5.7

Awareness about HDFC Ltd



Interpretation:-

From the table and graph above it can be seen that

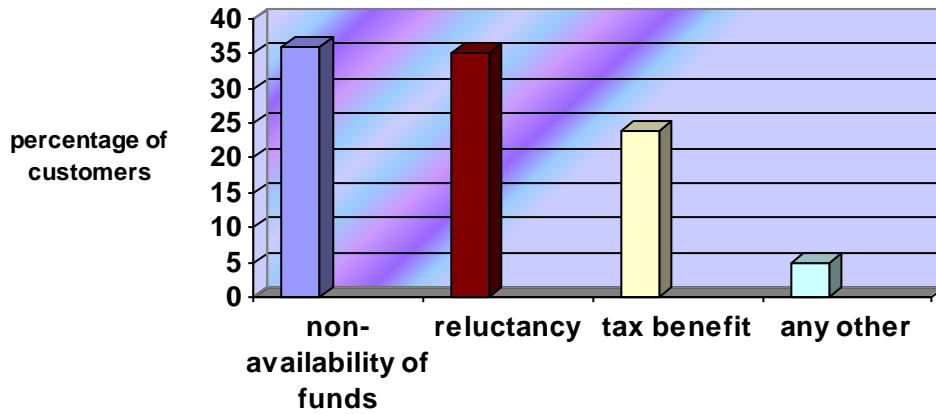
- 91% respondent’s are known about HDFC Ltd
- 9% respondent’s are not known about HDFC Ltd

○ **Table 5.8:-**

Reasons for getting the home financed

Sr.No.	Number of Reasons	Percentage
a.	Non-availability of funds	36
b.	Reluctancy to pay cash in one go	35
c.	Tax benefit	24
d.	Any other	5

GRAPH:- 5.8



Interpretation :-

To interpret the response of the questions, the figures shows that most of the customers find the problem in availability of funds i.e. 36% and very less number of customers found problem in paying cash in one go is 35%, customers get housing loan for tax benefits is 24%. This was the expected response because a large number of people find a problem of availability of funds which works as an obstacle in owning a dream home.

In today's life, people hardly earn both means and ends of life and they don't have much of money to buy a home or a land to construct house because of cost of property. So, they take the advantage of home loans provided by different banks at different terms feasible to the customers. There are very less number of people, who don't own home even when they have sufficient funds and they take the advantage of home loans because they don't want to pay huge cash in one go.

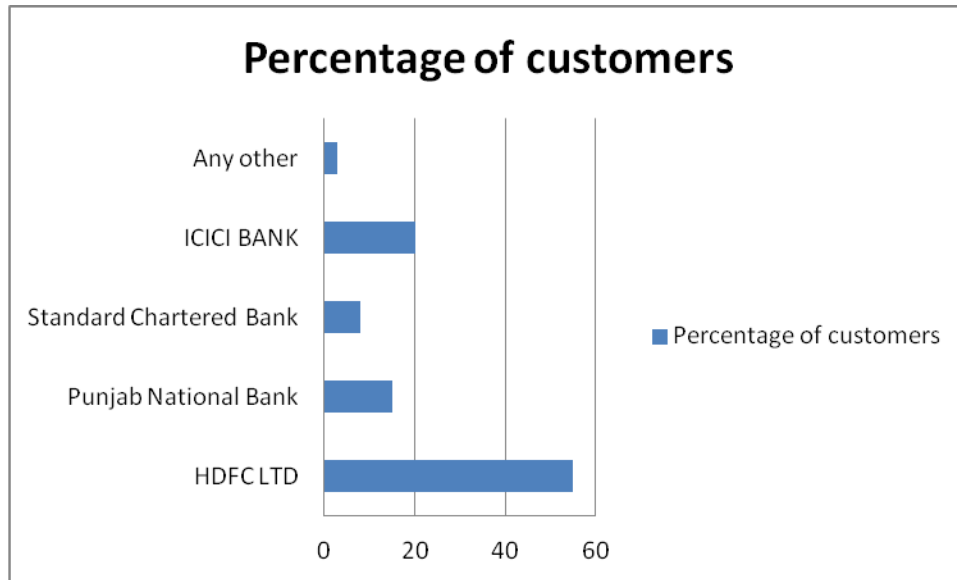
On the basis of study, it is concluded that most of people lack of money in fulfilling their dreams and few of them were reluctant to pay cash in one go and wanted to pay their home loans slowly in installments.

Table-5.9 From where you have got your home financed

Name of Banks / company	Percentage of customers
HDFC Ltd	55
Punjab National Bank	15
Standard Chartered Bank	08
ICICI BANK	20
Any other	03

To understand the response more effective and closely, it has been showed diagrammatically as follows :-

GRAPH:- 5.9



Interpretation:-

The analysis showed that a large number of customers prefer HDFC Ltd as compared to others. The data shows that 7% of customers took loan from Standard Chartered Bank, 20% of customers from ICICI BANK, 15% Customers took loan from Punjab National Bank, 55% of customers took loan from HDFC Ltd and a 3% of customers fall under the category of 'Any other' which included State Bank of India, Canara Bank, Punjab and Sind Bank, etc.

The data shows that most of people prefer HDFC Ltd compared to public sector banks and other private banks. This is because of the extra services provided by HDFC Ltd. However, there is less difference in figures of ICICI Bank and Punjab National Bank. But there is considerable difference in figures of the two private sector banks i.e. ICICI bank and Standard Chartered Bank. As ICICI is the market leader in the home loans sector. This may be the reason for such difference in Standard Chartered Bank's percentage and ICICI Bank's percentage. Another reason for specialized services in home loans, more amounts of loans, and efficient query handling.

However, the analysis showed that the people prefer HDFC Ltd for home loan because of their services and excessive feat compared to other banks.

CHAPTER-V FINDINGS, SUGGESTIONS AND CONCLUSION

FINDINGS

1. HDFC Ltd having good brand image in the minds of customers.
2. Majority of the people got loans from HDFC Ltd only
3. Most of the customers are not aware of the products of HDFC home loans
4. Some of the customer's felt that the interest rates are some what high
5. Some of the customer not having good faith on private banks like Standard chartered bank, HSBC bank etc.
6. Most of the people are directly go to HDFC to apply a home loan

7. Some of the customer of HDFC already benefited through HDFC home loan products and services
8. Customer awareness is medium about HDFC products.
9. HDFC Ltd providing good services to their customers.

RECOMMENDATIONS AND SUGGESTIONS

These suggestions have been discussed as follows:-

1) To increase their customers, the HDFC Ltd should provide specialized services in this sector. These services can be such as proper guidance to the customer regarding the processing of loans, especially for the customers who are illiterate.

2) To satisfy their customers and for good dealings in future, the HDFC Ltd should make prompt disbursement of loan amount to the customers so that they can buy or construct their dream home as early as possible.

3) The HDFC Ltd should use easy procedure, or say, less lengthy procedure for the sanctioning of loan to the customer. There should be less number of legal formalities, in case this exists, then, these should be completed in less time. This will be helpful in attracting more customers.

4) Although the interest rates on specific norms, yet customers seek less interest rate which can lower their cost of house. So banks should try to lower their interest rates. Needles to say, that the bank which is having lower interest rates, have the maximum clients for loans.

5) HDFC Ltd provide loan according to the repaying capacity of the customer and his/her eligibility. Due to which, some customers are not able to get amount of loan needed by them. So, the HDFC Ltd should soften their norms regarding the loan amount.

6) Create awareness: The Company has to take care of awareness creation about the products and services among the customers.

7) Charges: The Company has to reduce the mortality and administration charges.

8) The company has to reduce their interest rates on home loan products and services.

9) The company has to identify the potential customers.

10) Company should consider the present competition and should act according to the customer needs.

11) The HDFC Ltd 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. So they should provide knowledge to the ignorant customers, especially in rural areas and backward urban area So, above are the main suggestions provided to the HDFC Ltd. By considering these suggestions, the HDFC Ltd can strengthen their customer base in home loans sector. They should improve their services and reduce legal proceedings and should be friendly to their customers. All this will be helpful to satisfy their customers.

CONCLUSION

1) In my study we came to know that many peoples are interested to take a home loan from HDFC Ltd to construct their homes.

2) Home loans have long period when compare to other personal loans and other loans. So peoples are confused to take a home loan.

3) Even though the interest rates are high peoples are willing to take a loan from HDFC Ltd due to some reasons.

- 4) The interest rates also some what high when compare to other banks
- 5) The loan sanction process is low when compare to other banks.
- 6) For disbursement process is also it will take low time when compare to other banks

Finally the whole research was carried out in a systematic way to reach at exact results. The whole research and findings were based on the objectives. However, the study had some limitations also such as lack of time, lack of data, non-response, reluctant attitude and illiteracy of respondents, which posed problems in carrying out the research. But proper attention was made to Carry out research in proper way and to make accurate conclusion for the HDFC Ltd which may beneficial for banks to enhance their customer base.

BIBLIOGRAPHY

REFERENCES

REVIEWS

- *Berstein David(2009), "Home equity loans and private mortgage insurance: Recent Trends & Potential Implications", Vol.3 No.2, August 2009, Pp. 41 - 53*
- *Dr. Rangarajan C. (2001), "A Simple Error Correction Model of House Price".Journal of Housing Economics Vol. 4, No. 3,pp 27 – 34*
- *Fanning (1982), "The Demand for Home Mortgage Debt" Journal of Urban Economics, Vol 11 No 2, November, pp. 770-774*
- *Godse (1983), "looking a fresh at banking productivity", Journal of Real Estate Literature, Vol. No. 13, Page 141 to 164.*
- *Haavio, Kauppi(2000) , "Residential Lending to Low-Income and Minority Families: Evidence from the 1992 HMDA Data," Federal Reserve Bulletin,Vol no 80(2), December 2000 Pp-79-109*
- *Kulkarni (1979), "Development responsibility and profitability of banks" Journal of Economic Perspectives, Vol 9 No 1 ,pp. 26-32.*
- *La courr, Micheal(2008) , "Economic Factors Affecting Home Mortgage Disclosure Act Reporting" The American Real Estate and Urban Economics Association, Vol.2 No. 2 May 18, 2008, Pp. 45 -58*
- *La cour Micheal(2007) , "The Home Purchase Mortgage Preferences Of Lowand-Moderate Income Households", Forthcoming in Real Estate Economics , Vol 18, No 4 , December 20, 2007, p. 585.*
- *Vandell ,kerry D(2009), "Subprime lending and housing bubble:tail wag dog?"International Journal of Bank Marketing, vol 21,no 2, pp. 53-7*
- *Brochure on home loans from HDFC Ltd*

NEWS PAPERS

- *The Times of India*
- *Financial Express*

WEB PAGES:-

- <http://www.hdfcindia.com/>
- http://www.hdfcindia.com/others/popup/news/hdfc_fin_result_june_30_09.html
- <http://www.iloveindia.com/real-estate/housing-finance-companies/hdfc.html>
- <http://www.loansnews.info/Home-loan/hdfc-home-loans/>
- <http://www.hdfcindia.com/loans/hm-loan-documents.asp>
- <http://www.thinkplaninvest.com/2011/01/hdfc-will-cut-home-loan-rates/>
- http://www.suncorp.com.au/suncorp/personal/home_loans/tips/faq.aspx
- <http://investing.businessweek.com/research/stocks/people/people.asp?ric=HDFC.BO>
- <http://www.economywatch.com/companies/forbes-list/india/housing-development-finance-corporation.html>
- <http://www.hdfcindia.com/loans/home-loan.asp>
- <http://docs.google.com/gview?a=v&q=cache:woJTMDVIHLYJ:www.hdfc.com/pdf/32AGM%2520speech.pdf+hdfc+housing+finance+development+product&hl=en&gl=in>
- http://www.munichre.com/en/press/press_releases/2008/2008_10_30_profile_hdfc.aspx
- <http://www.hdfc.com.mv/faq.htm>
- <http://ayaanbayaan.com/hdfc-ltd-financial-results-indian-gaap-for-the-period-april-to-june-2011/>