

Customers Satisfaction towards Housing Finance Institutions in Ahmedabad District

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Abstract

Housing finance is an important link in the potential for transforming the creation of housing and social urban investment into strips of property and benefit for the people including low income groups. Generally, housing requires longer term finance than the one in industry. The objective of the study is to understand the level of customer satisfaction across various parameters like Interest Rate, Fast Sanction, speedy procedure and Minimum formalities, Lower Processing fees and other charges, Maximum Loan, Period of Loan, Account with HFIs, Overall working of HFIs, Interest Calculation Method, Delay on Loan Sanction, Prepayment and Default Penalties, Down Payment, Stamp Duty and other exps, Documents, Verification by officer of HFIs, Communication for Monthly EMI in order to measure the customer satisfaction, five point liker scale has been developed with 1 indicating fully satisfied while 5 indicating fully dissatisfied. One sample t-test has been used to check significant difference in the level of satisfaction. The Study mainly aims at studying the customer's satisfaction level towards housing activity and financing by Housing Finance Institutions in Ahmedabad District. Opinions of the respondents of the study field are taken by preparing and distributing questionnaire consisting of different questions based upon the purpose of the study. Simplerandom sampling technique is used to collect the data from 300 respondents. The results of the study show that customers are dissatisfied with the prepayment and default penalties. On the other side customers are most satisfied with down payment, stamp duty and other expenses related to home loan.

Keywords: Comparative, Analysis, Housing Finance Companies, Housing, Housing Finance.

“The purpose of a housing finance system is to provide the funds which homebuyers need to purchase their homes. This is a simple objective, and the number of ways in which it can be achieved is limited. Notwithstanding this basic simplicity, in a number of countries, largely as a result of government action, very complicated housing finance systems have been developed. However, the essential feature of any system, that is, the ability to channel the funds of investors to those purchasing their homes, must remain.”

– Mark Boleat¹

¹(1985) Mark Boleat, National Housing Finance Systems – A Comparative Study, p. 1.

Introduction to Housing Finance

Housing Finance is linked with the provision of infrastructure and utilities because it has a clear relationship with the volume of new stock which will be built. Housing finance is an important link in the potential for transforming the creation of housing and social urban investment into strips of property and benefit for the people including low income groups. Generally, housing requires longer term finance than the one in industry.

Customer satisfaction variables with explanation

The success of home loan product depends on the level of customer satisfaction, which in turn depends on various parameters. There are two type of the interest rate offered by the HFIs to borrower for the home loan viz. fixed rate and floating rate. Fixed interest rate is rate of interest which is fixed during the tenure of home loan and it is expensive as compared to flexible interest rate. Floating interest rate is rate of interest which is variable or flexible according to the market lending rate and it is quite cheaper compared to flexible interest rate. Borrower prefers the HFIS who having the fast processing, increase the speed of procedure and follow minimum formalities for sanctioning the home loan. Processing fee is fee charges to a potential borrower for processing an application for a loan. HFIs need to be incurred the expenses for processing an application and to cover the cost, HFIs charged the processing fees. HFIs will decided the amount of loan based on the value of the property and income of the borrower. HFIs will decided the tenure of home loan based on the age, education, occupation, and income of the borrower. Borrower has a saving accounts or loan with the HFIs. Borrower is going through in number of process like, legal, technical, credit, verification, disbursement for availing home loan. Daily Reducing Balance method is offered by the HFIs to borrower for home loan. HFIs follow the process to sanction the loan based on the required documents. Prepayment penalty is a penalty amount that will impose on the borrower when borrower prepaid the home loan fully or partially before maturity. The penalty amount is calculated by some percentage of the outstanding amount of the loan. Default penalty is a penalty amount that will impose on the borrower when borrower unable to pay the EMI on due date. The Difference between the Cost of the House and Loan amount has to be bear by the borrower, which include the Down Payment for the House, Stamp Duty and Registration Fees to be paid to government at the time of Registration of Sale Deed and other expenses which has to be paid at the time of taking the possession of the house. Borrower has a sufficient fund the cover the down payment, stamp duty and other expenses at the time of availing home loan. There is a requirement of certain documents like, KYC of the borrower, Filled Income Tax Return of Last 3 Years, Last 1 Year of Bank Statement, All Loan Sanction letter and Statement of Accounts, Legal and Technical paper of the Residential house and other relevant papers of the above documents. The above documents are submitted for the home loan to HFIs and the documents are same for all HFIs.

There is a system of verification in HFIs, like, Verification of Documents, Legal and Technical of Property, Verification of Person, Business and etc. There is a system to communicate for the EMI going on now a day by SMS or mail.

Literature Review

Mishra, A.K. (2011) tried to analyzed the net resources invested by housing finance company; area where efficiency to be improved; area where cost reduction is possible and efficient and effective utilization of resources. For the purpose of the study, primary data collected from official of Housing finance companies, secondary data and tools like tabulation, classification had been used. Housing finance companies have remained undeveloped due to lack of long term funds. Our effort here is to assess the financial measures being undertaken by the government towards the housing problems. In the market situation, there is room for many numbers of players to remain active. But it is important for a player to fulfill its obligations to its clients both in terms of disbursement made at a comparatively lower cost and also the quality of service. The HFC in the country is suffering mainly from the big cost of funds and even after reduction in rates of interest in the recent year, the rate of interest for the long terms loans is 5-6% more than rates in USA. In order to rectify this mismatch between demand and supply the government encouraged the housing finance institution and banks (public and private) for bridging the resource gap. The institutions engaged in housing finance require long-term funds. That is why LIC and GIC have entered this field as they have the long-term insurance funds with them. Some public sector banks have set up subsidiaries for housing finance. **Agrawal, N. R. (2014)** tried to analyzed the growth and reason for the development of housing finance activities and service perform of the concerned banks and HFIs with its impact on consumers' satisfaction. For the purpose of the study, primary data collected from 64 respondents, secondary data and tools like simple percentage method had been used. On the basis of statistical result the research concluded that respondents took advice from their family members and preferred the banks and HFIs. Respondents can easily have bought their owned house by availing housing finance. Respondents preferred to borrow the housing finance for 15 to 20 Years. The Rate of Interest was comparative lesser in Nationalized Banks. Most of the Respondents were satisfied from their banks or Housing finance companies. **Anand Kumar (2016)** tried to analyze the growth and impact of institutional housing finance on Indian economy. To carry out this objective we have considered four factors i.e. impact of housing finance, multiplier effect, and growth of housing finance and role of housing finance in economic development over the years. For the purpose of the study, secondary data had been used. On the basis of statistical result, the research conclude that Investment on Housing finance companies impacts on an employment, GDP, productivity and many other important factors. Construction sector was found to have a significantly higher income and employment multiplier

impact than most of other broad sectors of the economy. HFCs are facing more number of challenges in comparison with commercial banks and HFCs concentrate more on operational efficiency in order to survive. Housing sector contributes directly to overall production activities of the economy like job growth, tax revenue, wages, and the benefits of shelter and wealth accumulation for households. The results show that there is significant great relationship between Housing finance sector and employment. Housing finance sector occupies a predominant position in Indian economy in terms of its inter-industry linkages. The Housing finance sector in India has multiple linkages, backward and forward with different industries. Housing finance sector is very important part of income generator in India. The impact of investments in housing is transmitted to the rest of the economy through multiple channels that are associated with construction and other related industries. The role of the financing institutions viz. banks and Housing Finance Companies has grown significantly over the years in the housing sector. **Patel, H. D. and Desai, M. P. (2016)** tried to analyzed the preference of people towards type of bank; influence of demographic variables on customer choice and preference for a particular type of bank; difference in satisfaction level among consumers between public and private sector bank; relationship between customer satisfaction and customer retention towards bank; relationship between customer satisfaction and customer loyalty towards bank in Surat City. For the purpose of the study, primary data collected from 350 respondents, secondary data and tools like Chi-Square test and Cross-tabulation has had been used. On the basis of statistical result, the research conclude that Majority people of Surat city prefer to open account in private sector bank compare to public sector bank. Demographic factors such as age, occupation and education have no impact on selection of bank. Income of respondents has an impact on selection towards bank as (40 percent) people having income between 1.5 lakh to 5 lakh tend to invest in private sector bank compare to public sector bank. People of Surat city are more satisfied from private sector bank compare to public sector bank. There is a weak positive correlation between customer satisfaction and customer retention towards bank in Surat City. There is no relationship between customer satisfaction and customer loyalty towards bank in Surat City. **Manoj, P.K. and Dash, I.N. (2013)** tried analyzed the Management of Housing Finance Companies in India. For the purpose of the study, secondary data and tools like percentage method had been used. On the basis of statistical result, the research conclude that the entry of CBs has posed threat to the very existence of HFCs particularly the smaller HFCs, prudent management of finance and carefully thought-out business models can help many HFCs to survive and prosper. The market for housing finance is quite vast in India, given the very low level mortgage penetration. Use of advanced technology, modern credit scoring models and sophisticated data mining tools can significantly improve management of credit risk, and hence improve profitability and operational efficiency. Making use of RMBS mode of financing and cheap external sources for long term financing are other meaningful strategies. Above all, the inherent strengths of HFCs (viz. much more

specialized services vis-à-vis services of a general nature of CBs) should be taken advantage of by them. **Ravindra, P.S., Viswanadham, P. and Rao, Ch.T. (2013)** tried to analyzed the operational performance of LIC Housing Finance Limited and Housing Development Finance Corporation Limited; financial performance of LIC Housing Finance Limited and Housing Development Finance Corporation Limited in various parameters. For the purpose of the study, secondary data and tools like financial ratios, compound growth rates, percentages, Chi-square test had been used. On the basis of statistical result, the research concludes that the success of the LICHFL and HDFC in the housing finance industry is in its marketing network. They have more number of marketing personnel than the regular office staff. Even though, these two housing agencies are good in sanctioning loan disbursement and delivery of service to the customers, they have to modify and differentiate their services from other financial companies, which assure maximum benefit to the customers. They have to modify and differentiate their service packages according to the need of the market segment in order to have a permanent place in the housing industry. HDFC's RONW have been more consistent than LICHF's, but the book value growth rate is more consistent and higher on an organic basis for LICHF; we would rate LICHF's disclosure standards as better than HDFC's; LIC's agency base is one of the most potent and efficient distribution forces in India and LICHF has one of the most efficient operations with its Op.Exp/AUM (Operating Expenses to Assets Under Management) ratio now below HDFC's. It might not be HDFC, but in our view LICHF is a very strong housing finance company." It can be concluded that the consistency is observed in financial parameters of LICHFL and HDFC over the years, and LICHF has performed well in comparison with HDFC in both financial and operational aspects during the study period. **Vanaja, V. and Sindhuja, J. (2010)** tried to analyzed the customers' perception on home loans offered by HDFC Ltd; factors influencing the customers' choice of housing finance companies; reasons for pre closure of home loans by customers at HDFC Ltd; customers' opinion about Electronic Clearing Service of HDFC Ltd. For the purpose of the study, primary data collected from 150 respondents, secondary data and tools like Percentage analysis, Factor analysis, Chi-square analysis and Mean score had been used. On the basis of stastical result the research conclude that customers perceive the overall service of the employees to be very good on an average. On a majority, the customers agree that the products and processes are also effective. The customers felt that there is no proper updating of repayments. The company can improve the service by enabling automatic generated SMS or e-mails to be sent as soon as the entries are made in the loan accounts of the customers in the system. The customers felt that the RBI guidelines and any such changes on interest rates are not properly conveyed to them. The company can improve the service by tele calling, sending SMS and e-mails to the customers regarding the factor analysis that had been made, it is observed that the major factors that influence customers in choosing housing finance company are competitive interest rate, flexible repayment system, progressive funding and prepayment penalty. If HDFC keeps focusing on

these factors, it can attract new customers and can also retain more loyal customers in the long run. Majority of the customers are not aware of the various other home loan products offered by HDFC, other than the product availed by them. Awareness can be created through display boards within the office and newspaper inserts.

Objective and Research methodology

The objective of the study is to understand the level of customer satisfaction across various parameters like Interest Rate, Fast Sanction, speedy procedure and Minimum formalities, Lower Processing fees and other charges, Maximum Loan, Period of Loan, Account with HFIs, Overall working of HFIs, Interest Calculation Method, Delay on Loan Sanction, Prepayment and Default Penalties, Down Payment, Stamp Duty and other exps, Documents, Verification by officer of HFIs, Communication for Monthly EMI in order to measure the customer satisfaction, five point liker scale has been developed with 1 indicating fully satisfied while 5 indicating fully dissatisfied. One sample t-test has been used to check significant difference in the level of satisfaction. The Study mainly aims at studying the customer's satisfaction level towards housing activity and financing by Housing Finance Institutions in Ahmedabad District. Opinions of the respondents of the study field are taken by preparing and distributing questionnaire consisting of different questions based upon the purpose of the study. Simplerandom sampling technique is used to collect the data from 300 respondents has availed loan from the 10 Housing Financial Institutions like, State Bank of India (SBI), Bank of India (BOI), Bank of Baroda (BOB), Punjab National Bank (PNB), HDFC Bank, ICICI Bank, HDFC Ltd, LIC Housing Finance Limited, Indiabulls Housing Finance Limited, Dewan Housing Finance Limited (DHFL).

Data Analysis

Data collected during the research work are analyzed with the help of IBS SPSS and MS Excel. The data analysis is presented below;

Profile of Respondents		
Profile	No of Respondents	Percentage
Age	24-34	17.67
	35-44	67.67
	45-55	13.67
	55 and above	1.00
Gender	Male	81.70
	Female	18.30
Marital Status	Married	98.30
	Unmarried	1.70
Qualification	Up to Graduation	19.90
	Graduate	62.70
	Above Graduate	17.4
Occupation	Trade	40.00
	Manufacturing	27.00
	Service	33.00
Monthly Income	up to 30000	20.00
	30000-65000	64.00
	65000-100000	15.00
	Above 100000	1.00

The profile of respondents included in the study as presented in table above shows that that out of 300 respondents, 203(67.67%) fall under the age group of 35 to 44 years while 53(17.67%) fall under the age group of 25 to 34 years. It shows that large portion i.e. around 85% of the respondents falls under the age group of 25 to 44 years. Majority 245(81.7%) are Male respondents and only 55(18.3%) are female. 295 (98.30%) were married and 5 (1.70%) were single. Above table shows that, people prefers to buy the house by taking home loan after marriage. 188 (62.70%) of the respondents were Graduate, 52 (17.40%) were post graduate and remaining 60 (20.00%) were having the education below Graduation. 120(40.00%) were from Trade Industry, 99(33.00%) were from Services Industry and 81(27.00%) are from Manufacturing Industry. 192 (64.00%) of the respondents fall under the 30001 to 65000 income group, 60 (20.00%) fall under the lower income group i.e. income below 30000 Rupees and remaining 48(16.00%) fall under the group of above 65001.

Customer satisfaction is measured with the help of five point Likert Scale with 1 as fully satisfied while 5 indicating fully dissatisfied. The mean scale of satisfaction is presented in table below;

Descriptive Statistics : Satisfaction Level		
	Mean	Std. Deviation
Down Payment, Stamp Duty and other Expenses	1.283	0.533
Maximum Loan / Loan To Value	1.483	0.563
Period of Loan	1.487	0.615
Documents from Housing Society	1.510	0.552
Lower Processing Fees and Other Charges	1.983	0.848
Fast Sanction, Speedy Procedure and Minimum Formalities	2.037	0.948
Lower Interest Rate (Lower EMI) Rate of Interest	2.287	1.237
Verification by Officer of HFIs	2.450	0.634
Account with HFIs/Banking Relations/HFIs Reputation/ Overall Working of HFIs	2.560	0.793
Interest Calculation Method	2.653	0.669
Communication for Monthly EMI	2.777	0.498
Delay on Loan Sanction	2.817	0.927
Prepayment and Default Penalties	4.120	0.994

It can be seen from the data that customers are most satisfied with “Down Payment, Stamp Duty and other expenses” followed by “Maximum Loan / Loan to Value” and “Period of Loan”. On the other side customers are most dissatisfied with “Prepayment and Default Penalties” followed by “Delay on Loan Sanction” and “Communication for Monthly EMI”.

In order to test the significant difference in the level of satisfaction, one-sample t-test has been used. The results of the test are presented in table below;

One-Sample Test				
	Test Value = 3			
	t	df	Sig. (2-tailed)	Mean Difference
Lower Interest Rate (Lower EMI) Rate of Interest	-9.990	299	.000	-.71333
Fast Sanction, Speedy Procedure and Minimum Formalities	-17.604	299	.000	-.96333
Lower Processing Fees and Other Charges	-20.770	299	.000	-1.01667
Maximum Loan / Loan To Value	-46.625	299	.000	-1.51667
Period of Loan	-42.648	299	.000	-1.51333
Account with HFIs/Banking Relations/HFIs Reputation/ Overall Working of HFIs	-9.613	299	.000	-.44000
Interest Calculation Method	-8.971	299	.000	-.34667
Delay on Loan Sanction	-3.426	299	.001	-.18333
Prepayment and Default Penalties	19.508	299	.000	1.12000
Down Payment, Stamp Duty and other Exps	-55.794	299	.000	-1.71667
Documents from Housing Society	-46.788	299	.000	-1.49000
Verification by Officer of HFIs	-15.022	299	.000	-.55000
Communication for Monthly EMI	-7.774	299	.000	-.22333

It can be seen from the data that there is significant difference in the level of satisfaction across all the factors. The null hypothesis is rejected in all the cases ($p < 0.05$). Customers are most dissatisfied with "Prepayment and Default Penalties".

Conclusion and Recommendations

The success of housing finance institution depends on the extent to which customers are satisfied with the services. The results of the study show that customers are dissatisfied with the prepayment and default penalties. On the other side customers are most satisfied with down payment, stamp duty and other expenses related to home loan. Banks need to work on improving the prepayment process of home loan and penalties in the case of default in payment of installments. Within various parameters where customers are satisfied, the level of satisfaction is relatively lower in the case of delay in loan sanction, communication for monthly

EMI and interest rate calculation methods. Housing finance institutions are required to take corrective measure to improve the situation in order to increase customer satisfaction.

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