

A STUDY ON ISSUES RELATED TO HOUSING FINANCE : AN EXPERIENCE WITH STATE BANK OF INDIA

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ABSTRACT

Home is a dream of a person that shows the quantity of efforts, sacrifices luxuries and above all gathering funds little by little to afford one's dream. Home is one of the things that everyone wants to own. Home is a shelter to person where he rests and feels comfortable. Many banks are providing home loans, whether commercial banks or financial institutions, to the people who want to have a home. Many banks are providing home loans at cheapest rate to attract consumers towards them. The attitude of these banks is becoming more customer friendly, currently offering to consumer's cheapest loan over homes. This paper highlights certain concern areas of the banker and the customers in specific to the SBI Bank in housing finance in comparison with the other competitors in the housing industry and also focuses on the recovery system followed by SBI with the following objectives.

KEYWORDS: Issues concerning Home loans, Recovery system of housing finance in SBI, Competitors in housing finance.

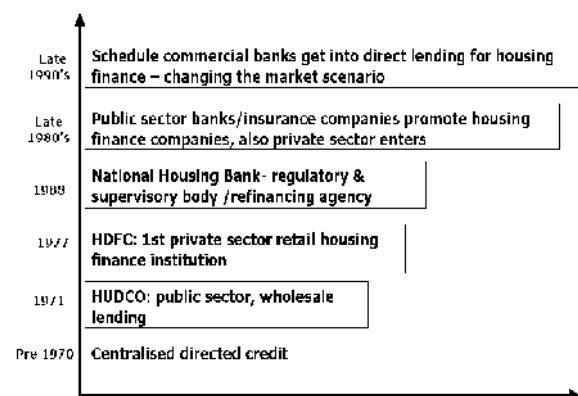
1.Introduction:

The Home loan sector in India plays a pivotal role in the growth of the real estate scenario in India. With tax incentives given to the housing finance sector in the annual budget of 2001, transactions related to buying and selling of residential properties increased considerably and was much higher as compared to previous years. Since the new class of buyers are relatively younger set of customers who are more aware about legal documentation and approvals, buyers are now more 'end-users' rather than investors; the property market in India undergoes transformation to align itself with global standards with an increased emphasis on quality & cost control and documentation methods. In the current economy of India, the real estate sector has the maximum propensity to generate income and demand for materials, equipment and services.

In view of acute housing shortage in the country, and

keeping in mind the social - economic role of commercial banks in the present times, the RBI advised banks to encourage the flow of credit for housing finance. With the RBI reducing bank rate, the home loan market rates nose-diving by 50 basis points. The realty boom in India has given a new dimension to the finance sector in India - both in Home Loans and Home Insurance segments. This has not only given a competitive edge to the finance companies to provide attractive options to customers but has also contributed to the increased investments in the real estate sector. This has resulted in 13 new institutions foraying into the housing finance business in the last three years.

Housing Finance- Timeline



2. Scope of the Study

The present study is confined to Home loan products offered by the domestic operations of State Bank of India. It is confined to the internal functional and operational aspects of the lending process.

3. Objectives

- To identify the problems faced by the bank in attracting more customers to use its home loan products in specific to SBI.
- To identify the problems faced by the bank at various stages of undertaking the home loans.
- To understand and identify difficulties in the

home loan asset management practices of the bank.

To study the valuation of collateral security method followed by the bank while lending the home loans.

To study the recovery system followed by SBI

4. Research Methodology

Primary Data has been collected through Questionnaire and an interaction with the branch manager. The sample size has been 100 respondents. Secondary Data Training and Guidance Material supplied to the staff of the Branch, Books and internet.

5. Housing finance issues in State Bank of India (SBI) has history of more than 200 years of existence. SBI is the largest commercial bank in India and accounts for approximately 18% of the total Indian banking business and the group account for 25% of the total Indian banking business.

SBI has the largest distribution network in India spread across every nook and corner of India. As on September 06, the bank has 14,061 branches which include 4,755 branches of its associated banks. The bank also has the largest network of 5,624 ATMs. Since the last 5 years the bank has showed continued growth in its core business. The total asset size of the bank reported a CAGR of 9.4% during the period FY01 -FY06 and stood at Rs. 4,938.69 bn as of September 2006. In HIFY07, the bank reported net interest income (NII) of Rs. 182.14bn, representing a growth of 2.74% over HIFY06 while the bank reported a net profit of Rs.19.8bn, registering a decline of 18.67% during the same period. Credit off take of the bank has been lower.

Today, State Bank of India (SBI) has spread its arms around the world and has a network of branches spanning all time zones. SBI's International Banking Group delivers the full range of cross-border finance solutions through its four wings - the Domestic division, the Foreign Offices division, the Foreign Department and the International Services division. In recent years the bank has focused on three priorities:

- 1), reducing its huge staff through Golden handshake schemes known as the Voluntary Retirement Scheme, which saw many of its best and brightest defects to the private sector,
- 2), computerizing its operations and
- 3), changing the attitude of its employees (through an ambitious programme aptly named 'Parivartan' which means change) as a large number of employees are very rude to customers.

5.1 Unique features of SBI Home Loan Products:

- * Provision for on the spot "In principle" approval.
- * Loan sanctioned within 6 days of submission of required documents.
- * Option to avail Home Loan as a Term Loan or as an Overdraft facility to save on interest and maximize gains (see SBI MaxGain in the following sections)
- * Option to club income of your spouse and children to compute eligible loan amount
- * Provision to club depreciation, expected rent accruals from property proposed to compute eligible loan
- * Provision to finance cost of furnishing and consumer durables as part of project cost.
- * Repayment permitted up to 70 years of age
- * Free personal accident insurance cover up to Rs.40 Lac.
- * Optional Group Insurance from SBI Life at concessional premium (Upfront premium)

5.2 Recovery Mechanism

The following debt collection practices will be applied to all debts (rates and sundry debtors) over \$200 that is not in dispute which have been outstanding for 90 days:

-First reminder letter will be forwarded, requesting payment within 14 days or to contact Council to enter into an arrangement. -Where no response is received, second reminder letter will be forwarded requesting payment within 14 days or to contact Council to enter into an arrangement. -Where no response has been received a letter of demand for payment within 7 days will be forwarded. The letter will state that failure to make payment in full or to enter into an arrangement will result in the commencement of legal action. Where no response has been received, outstanding debt will be forwarded to Council's debt collection agent.

5.2.1 Various Recovery Procedures

State Bank of India adopts various recovery procedures to recover the debt from its defaulters. The various recovery procedures are mentioned below:

v Reasons For Default :

There are various reasons for default like mismanagement, diversification of fund, short fall in investment, will fall default etc. So a credit manager should take various factors into account before lending a loan.

v Demand Notice:

When a defaulter does not repays loan a demand

notice is issued to him that he has to repay his loan with a stipulate time period.

∇ **Legal Notice:**

When a defaulter does not respond to the demand notice a direct notice is issued to him that if he does not repay the loan action would be taken against him legally and the court notice is issued against him.

∇ **Transfer To NPA Account:**

When a defaulter does not respond to respond to any legal notice or he becomes bankrupt the Whole account is transferred to NPA account.

5.3 Customer care

SBI home loan customer care services can be accessed from everywhere and at any time using the toll-free helpline numbers or the Internet. The bank has extensively covered all major cities of the country while at the same time not overlooking the customer care requirements of people residing in rural and semi-urban areas.

SBI has emerged as the largest provider of home loans in India. Thus it is not uncommon to see an SBI branch at a remotely located rural or semi-urban area, no matter where it lies on the geographical map of the country. Furthermore, it is also possible to meet an SBI senior official directly through a special service known as Public Grievance Cell Facility and get solutions instantly

6. Data Analysis and Interpretation:

Table: 1 COMPETITOR

Interpretation:

Majority of the competitors for the bank are from private sector in region. The closest competitor for the bank is HDFC .Virtually; there was an "ad war" with teasing rates between the two banks. Others include the local player Andhra bank and the private giant ICICI.

Table: 2 STRENGTHS AND WEEKNESS

Interpretation:

The biggest strength of the bank has been its large distribution network and able workforce. The weakest elements of the institution are the long processing times and the shortage of staff.

Table: 3. DEMAND TREND

Interpretation:

There has been instability in the demand for home loans in the region. Back in 2006-07, there were enquiries for the home loan from 65 individuals at the branch. Later on, the figure came down slightly to 40 and then rose to 60 in the next year. However, there has been an increasing demand in the current year.

Table: 4 CUSTOMER CAPACITY

Interpretation:

The repayment capacity of all of the existing customers was just below Rs.2 lacs p.a. There were no customers with repayment capacity more than Rs.2 lacs p.a.

Table: 5 SANCTIONS AND DISBURSMENTS

Interpretation:

There has been an increase in the Approvals to Enquiries Ratio from the year 2006-07(81.5%) to the year 2008-09 (95%) and a slight decrease in the next year to 83.3%. However, there has been huge improvement in Sanction-Disbursal to Approvals ratio to 96% in 2008-09 from average Ratio of 83.3% in the preceding years. One can understand the trend in terms of transforming the stringent system to hassle-free system.

Table: 6 CUSTOMER PORTFOLIOS

Interpretation:

Majority of the customers are salaried individuals in the region. The other section of customers is local self- employed. There is no housing finance to the normal individuals and the weaker sections.

Table: 7 PURPOSE PORTFOLIO

Interpretation:

Most of the existing customers have availed the loans for construction/purchasing their first homes. The minority of the customers have sought the loans for repairs/renovation/improvement of their existing houses/properties.

Table: 8. QUANTUM OF LOAN

Interpretation:

More than half of the existing customers are sanctioned loan amount not exceeding Rs. 5 lacs.The second majority of the customers are sanctioned loan amount above Rs.5 lacs to Rs. 10 lacs.The low repayment capacity of the customers in the region could be the main reason for the sanction of smaller quantities of loan.This implies that there was a demand for the lower weight products like SBI HI-FIVE LOANS in the region.

Table; 9 SIZE OF HOME LOAN BOOK

Interpretation:

There has been steady increase in the home loan book size of the branch.In the year 2008-09, the size had grown to 5.25 cr from 2.50 cr in the year 2006-07, which implies the size had doubled in two years.

Table: 10 CREDIT GROWTH TREND

Interpretation:

There has been a slight growth trend seen from the year 2007-08 to 2008-09.The growth rate of 44.8 of the year 2007-08 was almost sustained in the year

2008-09. The trend can be attributed to the reflection of decrease in demand and the impact of global recession sentiments in the banking sector.

Table: 11 SHARE OF HOME LOANS in retail portfolio

Interpretation:

The home loan segment had got a very small i.e., 10% share in the total retail segment of advances by the branch in the year 2008-09. The other retail advances like car loans, educational loans, personal loans etc got the 90% share of total retail advances of Rs.52.5 crores in the year.

Table: 12 TAKE OVERS

Interpretation:

There was less demand for the takeover of advances from other banks in the region from the customers of other banks in the home loan segment. It was found from the collected complaints from the customers that the Bank itself follows stringent mechanisms to entertain the takeover requests of the customers of other banks in the rest of the regions and that, may be the reason for the low level accounts of such requests to avert risks. The branch could entertain the transfer of only six such accounts from Dewan Housing Finance Ltd of total amount Rs. 50 lacs.

Table: 13 OUTSTANDINGS

Interpretation:

90% of the short-term loans lent during the period 2006-09 have been recovered leaving rest of 10% yet to be recovered or repaid by the customers in installments i.e., 94 accounts. Of Course, all the advances lent in the current year have been pending i.e., outstanding amount of Rs.5.25 cr

Table: 14 QUALITY OF HOUSING

Interpretation:

Advances amounting to Rs.52.25 lacs went default out of the total advances in the year 2008-09, That implies the ratio of NPAs to total Advances is 1%, and it is well within the limits.

Table: 15 INCOME GENERATED

Interpretation:

The branch could generate 45% of its interest income for the year 2008-09 from home loan segment. The interest income from the segment is Rs .3.31 lacs

Table: 16 NATURE OF COMPLAINTS

Interpretation:

Majority of the customers are very much concern about the unreasonable delays in processing. The Operational systems used by SBI are so complex as the transparency level of the bank is maintained low. Most of the existing customers are demanding for uniform rates.

SUGGESTIONS

- v Using Information Technology and Electronic Data Interchange at various stages of lending process would definitely give an edge to the bank in fighting competition and arrive at a more realistic lending decision.
- v To increase their customers, the bank 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.
- v To satisfy their customers and for good dealings in future, the bank should make prompt disbursement of loan amount to the customers so that they can buy or construct their dream home as early as possible.
- v Although the interest rates on specific norms, yet customers seek uniform interest rate giving equal justice to both the existing as well as new customers.
- v Although SBI Bank is a market leader in 'home loans' sector but they should innovate their services, viewing the- increasing competitions from other banks such as HDFC.
- v The Bank should drop its teaser rates as early as possible as their customers face problems in future paying high installment due to their financial problem.
- v As the banks 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 banks should soften their norms regarding the loan amount.

CONCLUSION

Banks have been constantly increasing their market share, thereby intensifying competition from other banks as well as Housing Finance Companies. While the discounted / special scheme rates are offered to new home loans, existing customers continue to ply higher rate of interest. The Indian Bank's Association has planned to introduce a uniform rate for all borrowers. As being a Largest Lender in the segment SBI needs to carry the same spirit and move in the right direction. We need to watch how banks / HFCs adjust their lending portfolios to this effect in future. Ease of access to information, online information, timely disbursement of loans, provisioning for bad loans etc., are some of the suggestions made to the operators in the home loan industry.

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TABLES AND GRAPHS

Table: 1 COMPETITOR

S.No.	Competitor	Severity of Competition (Low/moderate/High)?
1	ICICI	Low
2	HDFC	Moderate
3	Andhra Bank	Low

Table: 2 STRENGTHS AND WEAKNESS

S.NO.	Strengths	Weaknesses
1	Able Work Force	Long Turnaround Time
2	Network	Multiple Visits
3	Innovative Schemes	Documentation Needs
4	Loan Pricing	Competition
5	Lack Of Prepayment Penalty,	Varied Customer Demands
6	Transparency	Shortage Of Staff
7	The Interest Rates	

Table: 3. DEMAND TREND

Financial Year	Number of Enquiries
2006-07	65
2007-08	40
2008-09	60
2009-10	48

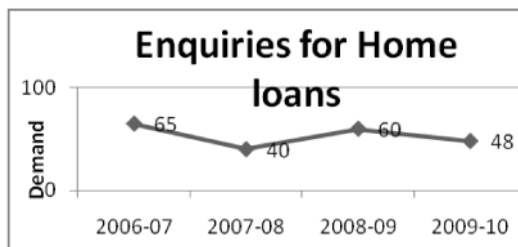


Table: 4 CUSTOMER CAPACITY

NMI Range	No. of Borrowers	Total Amount (Rs.)
Upto Rs.2 Lacs	48	5.25 crore
Between Rs.2 Lacs and Rs. 5 Lacs	0	
Above Rs.5 Lacs	0	

Table: 5 SANCTIONS AND DISBURSMENTS

Customers (2008-09)	Number of Proposals
Enquiries	60
Applied(Applications)	50
Approved	48
Sanctioned	48
Disbursed	48

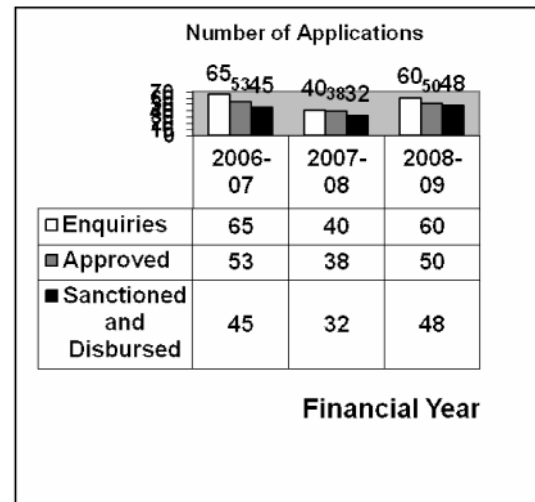


Table: 6 CUSTOMER PORTFOLIOS

Existing customers	Number of accounts	Amount (Rs.)
Individuals from Weaker sections	119	23.8 lacs
Salaried individuals	44	4.7crores
Self-Employed individuals	4	5 lacs
Realtors	0	-
Your Staff	0	-

Table: 7 PURPOSE PORTFOLIO

Purpose	Number of Accounts	Amount(Rs.)
To Pay for First homes	40	5 crore
To Purchase second homes	-	-
To Improve/renovate existing homes	8	25 lacs

Table: 8. QUANTUM OF LOAN

Loan Amount sanctioned	No. of Borrowers
Upto Rs.5 Lac	25
Above Rs.5 Lac and upto Rs.10 Lac	19
Above Rs.10 Lac and upto Rs.20 Lac	04
Above Rs.20 Lac and upto Rs.50 Lac	-

Table; 9 SIZE OF HOME LOAN BOOK

Financial Year	Amount(Rs. crores) lent
2006-07	2.50
2007-08	3.62
2008-09	5.25

Table: 13 OUTSTANDINGS

Number of Accounts Outstanding	94
Total Amount Outstanding(Rs.)	5.25 Cr
Total Outstanding/ Total Advances (%)	10%

Table: 14 QUALITY OF HOUSING

TotalAssets	Non Performing Assets in Home loan Segment	Total Advances	NPAs/Total Assets	NPAs/Total Advances
52.57 crores	5.257 lacs	52.57crore	1%	1%

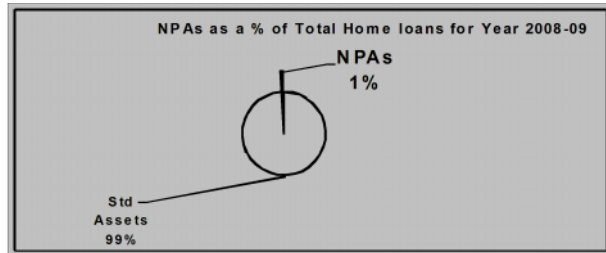


Table: 10 CREDIT GROWTH TREND

Financial Year	% Growth rate
2007-08	44.8
2008-09	45.02

Net Interest Income generated on Home Loans	Total Net Interest Income	% of Total Net Income
3.31 lacs	8.34 lacs	39.7

Nature of Complaints	Number of complaints
Tedious Procedures	11
Delays in Processing	14
Transparency	10
Negligence by staff	9
Lack of/improper guidance	5
Insurance cover	2
Teasing interest rates	8
Hidden charges	3
On Take Overs	5

Table: 11 SHARE OF HOME LOANS in retail portfolio

Retail Credit segment	Amount in Rs. crores
Home loans	5.25
Other advances	4.725
Total retail advances	52.5

Table: 12 TAKE OVERS

Bank	Number of Accounts	Amount (Rs.)
Dewan Housing Finance Ltd.	06	50 lacs.
-	-	-