



# CUSTOMER SATISFACTION ANALYSIS: HDFC VS. LIC HOUSING FINANCE LTD

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## ABSTRACT

Throughout human history, the house has held a central position as a physical and symbolic entity for the growth and progress of society. Adequate housing stands as a fundamental necessity for human beings, essential for leading a dignified life. Without proper housing of satisfactory quality, numerous tasks and achievements would be challenging, if not entirely unattainable. In India, a synergy between governmental and private sectors has led to the implementation of various housing reforms, encompassing diverse strategies such as reduced social allocations, diminished public financing, and the cultivation of a real estate culture. The issue of housing shortage is a global phenomenon, particularly severe in developing nations like India, where the housing situation has become increasingly critical in recent times. To address this, mortgage finance markets play a pivotal role in expanding affordable housing options and enhancing housing standards across many countries. Unfortunately, such markets are still in their early stages in India, contributing to lower rates of homeownership and substandard housing quality. These challenges arise from the fundamental problem of limited capital availability, with housing development heavily relying on financial institutions such as banks, credit companies, and development banks for necessary funding. Against this backdrop, this paper aims to examine key aspects of the Indian financing system, with a specific focus on Housing Development Finance Corporation Ltd (HDFC), a prominent player in the Indian housing finance industry, commanding a substantial market share of approximately 17 percent.

**KEYWORDS:** Housing Finance, HDFC, LIC.

## INTRODUCTION

In India, housing is a basic necessity and a significant aspiration for individuals and families. Owning a home is considered a symbol of stability, security, and financial progress. However, the rising costs of real estate often make it challenging for individuals to fulfill their dream of homeownership. This is where housing loans play a crucial role in providing financial assistance to individuals and families to purchase or construct their own homes. A housing loan, also known as a home loan or mortgage loan, is a type of loan provided by banks, financial institutions, and housing finance companies to facilitate the purchase, construction, or renovation of residential properties. These loans enable individuals to bridge the gap between their available savings and the total cost of the property, allowing them to become homeowners without a significant upfront payment.

The housing loan market in India has witnessed significant growth over the years, driven by increasing urbanization, changing lifestyles, and favorable government policies aimed at promoting affordable housing. The availability of housing loans has not only empowered individuals to fulfill their homeownership dreams but has also stimulated the real estate sector, contributing to economic growth and employment generation. Housing loans in India come with various features and options to cater to the diverse needs of borrowers. They are typically offered at competitive interest rates, with repayment tenures ranging from a few years to several decades. Borrowers can choose between fixed-rate loans, where the interest rate remains constant throughout the loan tenure, or adjustable-rate loans, where the interest rate is subject to periodic adjustments based on market conditions.

Furthermore, the government of India has introduced several initiatives and schemes to promote affordable housing and increase the availability of housing loans. Programs like Pradhan Mantri Awas Yojana (PMAY) and Credit-Linked Subsidy Scheme (CLSS) provide subsidies and interest rate benefits to eligible borrowers, making homeownership more accessible and affordable for low and middle-income groups. However, like any financial commitment, housing loans require careful consideration and planning. Borrowers need to assess their financial capabilities, evaluate the loan terms, and ensure they can comfortably manage the monthly repayments before taking on a housing loan.

In conclusion, housing loans in India have revolutionized the real estate landscape, empowering individuals to realize their dream of owning a home. These loans not only provide financial assistance but also contribute to the overall growth and development of the housing sector and the economy as a whole. With the government's focus on affordable housing and favorable lending conditions, housing loans continue to play a vital role in making homeownership a reality for millions of Indians.

## MEANING OF HOME LOAN

Home loans, commonly referred to as mortgages, necessitate the borrower to provide equity based on their property. This property can encompass various types, including single-family houses, condominiums, cooperative units, or even up to four-unit properties. The financing of home loans can come from different sources, including the borrowers themselves, as well as brokers who act on behalf of the lenders. Regardless of the origin or channel through which they are obtained, the fundamental requirement remains the same—borrowers must provide equity from their homes to secure the loan.

## HISTORY HOME LOAN

In the late 1800s, during a period of economic growth, home loans became increasingly common in the United States. Recognizing that the average individual was unlikely to have enough cash on hand to afford a house outright, lenders began offering loans to bridge the gap between the home's selling price and the buyer's down payment. These loans were typically structured as interest-only loans, with a repayment period of five to ten years, requiring the borrower to pay back the full amount at the end of the loan term. Homeowners had the option to refinance the loan or save up money to repay the loan in full during this period.

However, the Great Depression and the subsequent wave of foreclosures necessitated a shift towards modern amortized mortgages. These mortgages divided the payments into portions that covered both the principal amount borrowed and the interest. They were typically structured with a repayment period of 15 to 30 years, ensuring that the home would be fully paid off by the end of the loan term. This shift allowed for more sustainable repayment plans and greater long-term stability for homeowners.

## PURPOSE OF A HOME LOAN

The primary purpose of a home loan is to provide borrowers with the necessary funds to purchase a home. Home equity loans, on the other hand, enable borrowers to borrow against the equity they have built up in their property, which is the difference between the property's value and the outstanding mortgage balance. This allows homeowners to access additional funds for various purposes, such as home improvements, debt consolidation, or other financial needs. Investor loans, also known as investment property loans, cater to buyers who intend to use the purchased property for rental purposes or to renovate and sell it for a profit. These loans are designed specifically for individuals or entities interested in real estate investment opportunities. They provide financing options that align with the unique requirements of investors, allowing them to acquire properties that can generate rental income or be sold for a gain.

In summary, while home loans primarily facilitate home purchases, home equity loans leverage the accumulated equity in a property, and investor loans cater to those seeking real estate investment opportunities for rental income or resale.

## TYPES OF HOME LOANS

The two most commonly used forms of home lending are fixed-rate loans and adjustable-rate loans. A fixed-rate loan maintains the same interest rate for the entire duration of the loan, ensuring that both the principal and interest portions of the monthly payment remain constant. On the other hand, adjustable-rate mortgages (ARMs) start with a lower interest rate for an initial period and then adjust to market rates once that period expires. There are limits on how much the rate can change at any given time and over the course of the loan. As a result, the principal and interest portions of the monthly payment fluctuate over time.

In addition to these types of loans, there are various other types of home loans available to suit different needs:

- Home Purchase Loans: This is the standard loan used to finance the purchase of a new home.
- Home Improvement Loans: These loans provide funding for repair and upgrade projects in an already owned home.
- Home Building Loans: This type of loan is specifically for constructing a new home.
- Home Extension Loans: These loans are granted for expanding or extending an existing home, such as adding extra space.
- Home Conversion Loans: This loan is available for individuals who have already financed their current home with a home loan but want to purchase and transfer to another home that requires additional funds. The existing loan is transferred to the new home through a home conversion loan, which includes the extra amount needed, eliminating the need to prepay the previous loan.
- Land Acquisition Loans: This loan is used for purchasing land, either for construction or investment purposes.
- Bridge Loans: Bridge loans are designed for individuals who are selling their original home and purchasing another. These loans help fund the new home purchase before a buyer is identified for the original home.

These different types of home loans provide flexibility and options for borrowers based on their specific requirements and circumstances.

## OBJECTIVES OF THE STUDY

Objectives of the study are as under:

- 1) To study the customers' satisfaction levels towards housing finance banks in India.
- 2) To understand why customers preferred the HDFC and LIC Housing Finance Ltd. for home loan in India.

## REVIEW OF LITERATURE

### Role of Housing Finance Companies:

Housing finance companies (HFCs) have emerged as important players in the Indian housing loan market. Research by Bera and Dutta (2018) analyzed the role of HFCs in promoting affordable housing finance. The study highlighted the innovative products and services offered by HFCs, such as flexible repayment options and customized loan products, which have expanded access to housing finance for a broader segment of the population.

### Government Initiatives and Policies:

The Indian government has introduced various initiatives and policies to promote affordable housing and increase access to housing finance. A study by Chaudhry and Gupta (2020) examined the impact of government schemes, such as Pradhan Mantri Awas Yojana (PMAY) and Credit-Linked Subsidy Scheme (CLSS), on housing loans. The research highlighted the positive influence of these schemes in reducing the financial burden on borrowers through subsidies and interest rate benefits.

### Challenges in Housing Finance:

Studies have also identified challenges in the housing finance sector in India. Research by Singh and Kaur (2019) explored the challenges faced by borrowers in availing housing loans, including complex loan application processes, high interest rates, and stringent eligibility criteria. The study emphasized the need for streamlining loan procedures and improving transparency to enhance borrower experience.

### Future Trends and Recommendations:

Looking ahead, scholars have provided insights into potential future trends and recommendations for the housing loan sector in India. A research paper by Sharma et al. (2021) discussed the emergence of digital lending platforms and the integration of technology in the housing loan process. The study emphasized the importance of adopting digital solutions to enhance accessibility, efficiency, and transparency in housing finance.

## DATA ANALYSIS

Level of Customer Satisfaction with respect to various aspects

SR NO	Particular	Total Number of Respondents	Weighted Sum	Average Level of Satisfaction +	RANK
1	Promptness of the sanctioning of Loan	140	478	3.41	1
2	Promptness in disbursement	140	388	2.77	7
3	Safety-security-Privacy	140	420	3	4

SR NO	Particular	Total Number of Respondents	Weighted Sum	Average Level of Satisfaction +	RANK
4	Loan Availability	140	467	3.34	2.5
5	The service quality	140	416	2.97	5
6	Easy/Cumbersome way of loan process	140	468	3.34	2.5
7	Cooperation of staff	140	355	2.54	8
8	Documentation	140	321	2.29	11
9	Guarantee	140	342	2.44	10
10	Security	140	279	1.99	12
11	Rate of Interest	140	344	2.46	9
12	EMI	140	409	2.92	6

The above table indicates that the average level of satisfaction to customers is more than neutral state which is denoted by 3 with respect to all the aspects except the service quality, cooperation of staff, documentation, guarantee, security, rate of interest, EMI where the mean score was found less than 3. Therefore these aspects need more attention and shows good scope of improvement.

Further, on the basis of weighted sum, ranking is done against various aspects of customer satisfaction in order to know which aspect contributes the most towards maximizing the satisfaction and which one gives a negative effect.

### Knowledge about the features of HDFC and LIC Housing Finance Ltd

The respondents in question 2 were requested to answer whether they know all the features of HDFC and LIC Housing Finance Ltd

The results are given below:

#### Knowledge of Features of HDFC and LIC Housing Finance Ltd

Knowledge about features	HDFC		LIC	
	FREQUENCY	%	FREQUENCY	%
Yes	45	64.30%	50	71.40%
No	25	35.70%	20	28.60%

It can be seen from the above table 2 it can be seen that out of 140 respondents, 45 (64.5%) have knowledge of the features of HDFC and 67 (71.4%) have the knowledge of feature of LIC Housing Finance.

## CONCLUSION

The analysis of the Indian housing finance market cannot be isolated from the government's role in the overall financial sector, which is currently undergoing a phase of liberalization. Despite attempts by the Indian government to stimulate economic growth through interest rate regulations and directing credit to priority sectors, these efforts have been relatively limited. The establishment of private-sector housing finance since 1977 and the introduction of the National Housing Bank have contributed to the growth of the sector. Specific guidelines, lending rules, refinancing facilities, and the Home Loan Account scheme have been developed to cater to the needs of the general population. However, the reality presents challenges as the poor still struggle with accessibility, affordability, and suitability of formal housing financing through Housing Finance Companies (HFCs). HFCs primarily focus on serving households with above-average incomes, as their lending requirements, such as long-term credit, large loan sizes, and stringent repayment methods, align more closely with the lifestyle of this income group. Consequently, HFCs view the poor as high-risk borrowers, leading to limited access to loans with less favorable terms.

The control exerted by the government over the Indian housing finance market restricts its further progress. Subsidies, such as interest rate concessions and tax exemptions, primarily benefit those who are better off. It would be prudent to reconsider granting such subsidies, as they burden the financial system and taxpayers. A recommendation for the advancement of the housing finance market is to promote further liberalization, allowing for the development of diverse credit instruments tailored to different income groups.

The Indian experience in down-marketing housing finance demonstrates that the private sector cannot be relied upon to adequately serve the lower-income segment, despite the establishment of support mechanisms. Housing Finance Companies (HFCs) are hesitant to engage with this demographic due to their unfamiliarity with their creditworthiness. A key lesson from this case, which may extend beyond the Indian context, is that instead of trying to fit the poor into existing housing finance frameworks, a credit system should be designed to accommodate incremental housing construction. Such loans should feature shorter or medium-term credit, relatively smaller amounts, and flexible repayment options. In other words, a policy that empowers the vulnerable population would have a greater impact on the average person than enabling the private sector.

There is a need for simultaneous restructuring of housing finance systems to cater to both middle-income and low-income households. When the focus solely rests on designing housing finance schemes for the poor, the middle class is likely to take advantage of the programs meant for the disadvantaged. Apart from offering interest discounts on mortgage loans for vulnerable groups, providing one-time household grants could be a more secure method of assistance.

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