



A Comprehensive Study on Customer Satisfaction in Housing Finance - HDFC vs. LIC

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ABSTRACT

The house has played a crucial role in the development of society throughout human history as both a tangible and symbolic institution. Sufficient housing is a basic human need that is necessary for living a life of dignity. In the absence of adequate housing of acceptable quality, many jobs and accomplishments would be difficult, if not impossible. Governmental and private sector collaboration in India has resulted in the introduction of a number of housing reforms that include a range of tactics such as lowered social allotments, lowered public funding, and the development of a real estate culture. The lack of housing is a widespread problem that is especially bad in emerging countries like India, where the housing crisis has gotten worse recently. In order to solve this, mortgage finance markets are essential for raising housing standards and providing more affordable housing options in many nations. Regrettably, these marketplaces are still in their infancy in India, which lowers homeownership rates and lowers the quality of housing. These issues stem from the basic issue of scarce capital availability, since financing for housing development is mostly provided by financial organisations like banks, credit agencies, and development banks. In light of this, the purpose of this study is to analyse important facets of the Indian financing system, with a particular emphasis on Housing Development Finance Corporation Ltd. (HDFC), a major participant in the Indian housing finance sector with a significant market share of roughly 17%.

KEYWORDS: Housing Finance, HDFC, LIC.

INTRODUCTION

Housing finance in India has undergone significant transformations over the years, playing a crucial role in the country's economic development. The sector has witnessed a surge in demand as more individuals aspire to own homes, and various financial institutions have stepped in to meet this growing need. Here are key aspects of housing finance in India:

Regulatory Framework:

The housing finance sector in India operates under the regulatory oversight of the National Housing Bank (NHB) and the Reserve Bank of India (RBI). NHB was established to promote and regulate housing finance institutions in the country.

Financial Institutions:

Numerous financial institutions and banks provide housing finance in India. This includes dedicated housing finance companies (HFCs), commercial banks, and cooperative banks. These institutions offer a variety of home loan products tailored to meet the diverse needs of borrowers.

Government Initiatives:

The government of India has introduced various initiatives to promote affordable housing and increase homeownership. Schemes like Pradhan Mantri Awas Yojana (PMAY) aim to provide financial assistance to individuals, particularly those from economically weaker sections, to help them acquire affordable housing.

Interest Rates and Loan Products:

Housing finance products in India come with varying interest rates, tenures, and repayment options. Fixed and floating interest rates are common, allowing borrowers to choose the option that best suits their financial preferences.

Digital Transformation:

The housing finance sector has embraced digital technologies to streamline processes and enhance customer experiences. Online loan applications, digital document verification, and e-KYC (Know Your Customer) procedures have become standard practices, making it more convenient for individuals to apply for and secure home loans.

Credit Scoring and Eligibility Criteria:

Lenders assess the creditworthiness of borrowers using credit scores and other eligibility criteria. Individuals with a good credit history are more likely to secure loans at favorable interest rates.

Securitization:

Securitization is a common practice in the housing finance sector, where financial institutions bundle together a pool of home loans and sell them as securities to investors. This helps manage liquidity for the lenders and promotes the flow of funds in the market.

Challenges and Risks:

The housing finance sector faces challenges such as interest rate fluctuations, market risks, and the impact of economic downturns. Managing non-performing assets (NPAs) is a concern for lenders, and prudent risk management practices are essential to sustain the health of the sector.

Future Outlook:

The housing finance sector in India is expected to continue growing as urbanization and the demand for housing remain high. Innovations in financial products, increased digitization, and supportive government policies will likely shape the future landscape of housing finance in the country.

In conclusion, housing finance in India has evolved to become a vital component of the financial services sector, contributing to the realization of homeownership dreams for millions of people. The sector's resilience and adaptability to changing economic landscapes position it as a key player in India's ongoing development story.

PURPOSE OF A HOME LOAN

Giving borrowers the money they need to buy a house is the main goal of a home loan. Conversely, home equity loans allow borrowers to take out loans against the equity—that is, the difference between the property's market value and the remaining mortgage balance—that they have accrued in their home. This enables homeowners to get access to extra money for a range of requirements, including debt relief, home upgrades, and other expenses. Investor loans, sometimes referred to as investment property loans, are designed for purchasers who plan to rent out their newly acquired property or to remodel it with the goal of selling it for a profit. These loans are intended exclusively for people or organisations who are looking to invest in real estate. They offer financing alternatives that meet the particular needs of investors, enabling them to buy homes that may be sold for a profit or used to

produce rental income. To summarise, home equity loans use the equity that has built up in a property, investor loans serve people looking to invest in real estate for the purpose of renting out or selling it, and house loans are mainly used for home purchases.

TYPES OF HOME LOANS

Fixed-rate loans and adjustable-rate loans are the two most popular types of house loans. The principle and interest components of the monthly payment are guaranteed to stay the same with a fixed-rate loan since the interest rate is kept consistent during the loan's term. Conversely, adjustable-rate mortgages, or ARMs, have a lower beginning interest rate followed by an adjustment to market rates at the end of the term. The amount that the rate can fluctuate both over the loan term and at any given point is restricted. The principle and interest components of the monthly payment therefore change with time.

Apart from these loan kinds, there are numerous more kinds of home loans that can be obtained to meet diverse requirements:

1. Home purchase loans are the most common type of loan taken out to pay for a new house.
2. Home improvement loans: These loans offer money for renovation and repair projects carried out in a house that is already owned.
3. Loans for home construction: These loans are intended only for the construction of new homes.
4. Loans for Home Extension: These loans are given for the purpose of extending or growing an already-existing home, like by adding more space.
5. Home Conversion Loans: These loans are accessible to those who currently have a home loan in place to finance their present residence, but who wish to buy and move into a new property that needs more money. There is no need to prepay the prior loan because it is moved to the new residence through a house conversion loan that includes the additional amount required.
6. Loans for land acquisition: These loans are used to buy land for development or investment.
7. Bridge loans are intended for people who are selling their primary residence and buying a new one. Before a buyer is found for the old house, these loans assist in financing the purchase of the new one.

OBJECTIVES OF THE STUDY

- 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

The Indian housing loan sector has seen the rise of housing finance firms (HFCs) as significant players. Bera and Dutta's (2018) study examined how HFCs support financing for affordable homes. The study focused on the cutting-edge services and goods provided by HFCs, namely personalised loan solutions and flexible repayment choices, which have increased access to home financing for a larger range of people.

To encourage the development of affordable homes and broaden access to housing finance, the Indian government has launched a number of programmes and programmes. Chaudhry and Gupta's (2020) study looked at how government programmes like the Credit-Linked Subsidy Scheme (CLSS) and Pradhan Mantri Awas Yojana (PMAY) affected home loans. Through interest rate benefits and subsidies, the research demonstrated the beneficial impact of these schemes in lessening the financial strain on borrowers.

Research has also revealed difficulties in India's housing finance industry. Singh and Kaur's (2019) study examined the difficulties borrowers encounter while obtaining housing loans, such as difficult loan application procedures, exorbitant interest rates, and strict qualifying requirements. In order to improve the borrower experience, the study underlined the necessity of streamlining loan procedures and increasing transparency.

Insights regarding prospective future trends and suggestions for the Indian housing loan market have been offered by academics. Sharma et al. (2021) examined the rise of digital lending platforms and the use of technology in the home loan application process in their research paper. The report stressed how crucial it is to implement digital solutions in order to improve housing finance's accessibility, effectiveness, and transparency.

DATA ANALYSIS

Level of Customer Satisfaction with respect to various aspects

Particular	Total Number of Respondents	Weighted Sum	Average Level of Satisfaction +	RANK
The service quality	140	416	2.97	5
Security	140	279	1.99	12
Safety-security-Privacy	140	420	3	4
Rate of Interest	140	344	2.46	9
Promptness of the sanctioning of Loan	140	478	3.41	1
Promptness in disbursement	140	388	2.77	7
Loan Availability	140	467	3.34	2.5

Particular	Total Number of Respondents	Weighted Sum	Average Level of Satisfaction +	RANK
Guarantee	140	342	2.44	10
EMI	140	409	2.92	6
Easy/Cumbersome way of loan process	140	468	3.34	2.5
Documentation	140	321	2.29	11
Cooperation of staff	140	355	2.54	8

In all categories, with the exception of service quality, staff cooperation, documentation, guarantee, security, rate of interest, and EMI, where the mean score was found to be less than 3, the above table shows that the average level of customer satisfaction is higher than the neutral state, which is indicated by a 3. As a result, these areas require more focus and have room for growth.

Additionally, rating is done against several characteristics of customer happiness based on a weighted sum to determine which component has a negative impact and which one contributes the most to maximising satisfaction.

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%

From Table above, it is evident that 45 (64.5%) of the 140 respondents are aware of the features of HDFC, and 67 (71.4%) are aware of the features of LIC Housing Finance.

CONCLUSION

It is impossible to separate the government's involvement in the Indian home financing market from the financial industry as a whole, which is presently going through a liberalisation phase. The Indian government has made comparatively little progress in promoting economic growth through interest rate controls and credit allocation to key industries. The National Housing Bank and the development of private-sector housing finance, which began

in 1977, have both aided in the sector's expansion. To meet the demands of the general public, specific guidelines, lending regulations, refinancing options, and the Home Loan Account programme have been designed. The poor, however, continue to face difficulties in obtaining, affording, and being eligible for official housing financing through Housing Finance Companies (HFCs). Because its lending criteria—long-term credit, huge loan amounts, and strict repayment schedules—more closely match the lifestyle of above-average income households, HFCs generally target these households. Poor people have restricted access to loans with unfavourable terms because HFCs see them as high-risk borrowers. The government's dominance in the Indian home finance sector limits its ability to grow. Tax exemptions and interest rate breaks are examples of subsidies that mostly help the wealthier people. Given the strain these subsidies place on the financial system and taxpayers, it would be sensible to reevaluate their awarding. One suggestion for the development of the housing finance sector is to encourage additional liberalisation, which would enable the creation of a variety of loan products catered to various income brackets.

Even with the introduction of support mechanisms, the private sector is not dependable enough to cater to the lower-income segment, as seen by the down-marketing housing finance experience in India. Housing Finance Companies (HFCs) are reluctant to work with this group since they don't know how creditworthy they are. One important takeaway from this situation, which may not just apply to India, is that a credit system should be set up to support the development of incremental housing rather than attempting to squeeze the impoverished into preexisting housing finance structures. These loans ought to provide flexible repayment alternatives, comparatively lesser amounts, and shorter or medium-term financing. Put otherwise, allowing the private sector would not affect the general public as much as empowering the population that is most in need of assistance. In order to serve middle-class and low-class households, housing financing systems must be simultaneously restructured. The middle class is likely to take advantage of programmes intended for the disadvantaged when the entire focus is on creating housing finance schemes for the impoverished. In addition to lowering interest rates on housing loans for disadvantaged populations, one-time household handouts would be a safer way to help.

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