

# A COMPARATIVE STUDY OF HOME LOAN IN PUBLIC AND PRIVATE SECTOR BANKS

Snehal Shah<sup>1</sup>, Lalwani Nikita<sup>2</sup>, Diya Modi<sup>3</sup>

<sup>1</sup>Assistant Professor, <sup>2</sup>Student, <sup>3</sup>Student

Department of Public Policy and Governance (DPPG), Gujarat University, Ahmedabad, Gujarat (India)

Email: <sup>1</sup>shah.snehal04@gmail.com, <sup>2</sup>nikitalalwani7020@gmail.com

<sup>3</sup>diyamodi006@gmail.com

## ABSTRACT

*Home is the basic necessity of each and every individual. It executes as a living place for families. As home is a basic necessity and is useful in future, many people invest in purchasing of house. But nowadays, purchasing of house for middle class family is very difficult, as it is not affordable. So for the convenience of people, Government has provided the House Loan facility at lower rate of interest to every individual. Basically, A Housing Loan is to purchase the home on loan in which an individual pays an amount of installments every month at a particular interest rate. The loan is provided to an individual with the terms and conditions of banks like eligibility of the person, income of the person. Nowadays, many banks provide the facility of loan at different interest rates. The main point in loan is the interest rate. The main purpose of this comparative study is customer's satisfaction and the procedure of home loan in public and private sectors bank.*

**Keywords:** home loan, interest rate, financial banks.

## 1. INTRODUCTION

A home is a comfort zone of each and every individual. It is not only the comfort zone of every individual, but it's a place where one wishes to live every day. Nowadays, home loan is in high demand, as middle class people are unable to purchase the home. To fulfill this increasing demand of people, many banking sector and financial institutes are providing housing loan facility. The home is the basic necessity of every individual so the home loans are available at lower interest rates, for meeting the demand of every individual. When an individual purchases a home, he/she is unable to pay the whole amount and some peoples pay a very little amount, so fulfill the demands of people the home loan facility is provided.

The term loan is defined as debt. Similar to the other debt instruments, a loan shows the redistribution of assets periodically, within the loan givers and borrowers. The money is paid back in same installments generally, but also according to the borrowers will or condition, sometimes. Surety cannot be provided on the beginning of loan systems, but it can be predicted that the idea of lending and borrowing came along with the notion of ownership. Many types of loans were seen to be used by Greeks and Romans along with the mention of monetary loan in The Bible. • The "Indentured loan" being one of the earliest forms of loans in 19th century came with the disadvantages to the poor, as in "slave labor".

The home loan is taken for the purchase of the house which is the dream of every individual. The duration of this loan is longer. The home loan is granted for the 80% of the property and in some cases it reaches to 85-90%. Furthermore in India, there are two types of banks that are: Public sector banks and Private sector banks. Public sector banks are defined as the banks in which more than 50% stacked is owned by Government. The nationalized banks are the Public sector banks. Private sector banks are defined as the banks in which stake belonged to the Private Shareholders. In India, there are 29 Private sectors banks and 27 Public sectors banks.

**Public Sector Banks:** The banks that are controlled by Central Government are known as public sector banks. Nationalized banks are also known as public sector banks. The formation of nationalized bank is done by combining a bank with its assets into public ownership.

**Private sector banks:** They are owned by the private lenders. The private banks are also operated by private promoters who are given the power to control according to the market forces. Generally, the private banks are seen as multinational organizations with overseas operations. These banks avails loan at low interest rates. There are 21 private banks in India at present. The private banks are controlled by the private owners. All the private banks have to register themselves under the Indian Companies Act. Private banks are having latest technologies.

And the main aim of private banks is to gain profit.

## 2. LITERATURE REVIEW

Prof. S.V. Satyanarayan and Mrs. Srilakshmi Ramu(2019) In their study of comparison between public and private housing finance companies in India has undertaken the research of performance of public and private housing finance companies during the period of ten years that is from 2008-09 to 2017-18 and have compared the operational performance. Prof. Rekha. D. M and Gangamma. S.E (2019) in their study have gathered the information regarding the housing loan evolution and performance in India. Their main objectives are to have a view of clients on HDFCL and to recognize their issues. Satish Manwani, Dr. Neeraj Singh and Dr. Vishal Sood(2019) have gathered the information of the impact of factors affecting customer satisfaction towards home loan scheme of ICICI bank. The objective of this study is to know the customer satisfaction of ICICI bank. The primary and secondary data are collected for this survey. The primary data have 200 samples survey. Raju Kaur, Kajal Chaudhary, Amit Kumar, Supreet Kaur Jaggi (2017) in their study has undertaken the comparison of two banks that is State Bank of India and Housing Development Finance Corporation in the Bathinda, Punjab. The survey is of 100 respondents in this study. This study has undertaken the primary as well as secondary data; the primary data is collected through the survey in Bathinda and secondary data through research paper and various journals. This research is carried out in a very systematic way and the objectives of this are fulfilled. Dr. B.C.M.Patnaik, Dr. Ipseeta Satpathy, D.Litt and Nihar Ranjan Samal(2017) have studied the conceptual framework of home loan. The main objective of this study is to understand the concept of home loan in depth. The study is all based on the secondary data only. Murugan and Jansirani(2017) this study is undertaken to know the customer perception towards home loan. The primary survey is of 500 respondents in this study. This survey is carried out in systematic way and their objectives are fulfilled. Gupta and Sinha(2015) this study has compared the home loan purchase and its lower interest rate in State Bank of India and LIC housing finance companies. The main objective of this comparative study is to know the factors affecting consumers and the buying behavior of the consumers. Chithra and Muthurani(2015) this study has examined the customers perception towards the home loan in HDFC bank in Chennai. The sample size of this study is 85 and is random samples. This study concluded that the HDFC bank is the reputed bank and should increase the services that will leads to the increase in business. Kshitija Sawant and Shrikrishna Mahajan(2013) in this study have analyzed the housing loan in Kolhapur urban Cooperative Bank and other banks. The main objective of this study is to identify the problems encountered by borrowers of housing loan. The primary and secondary data are collected in this survey of different banks. This study is based on five years from 2004-05 to 2008-09. Goyal and Joshi (2011) :have gathered in their research on Social and Ethical Aspects of Banking Industry that banks can extend themselves as a social and moral oriented association by just handing out credits to those social, moral and ecological concern associations. Kumar and Gulati (2010) supervised focusing mainly the possession on the Indian local banks' adequacy. The operational cross-sectional information of the general population and private area banks amid the money related years 2005-06 and 2006-07 was utilized. Overall , it is concluded that industry possession is incapable in the Indian local saving money industry. Naveen K. Shetty and Dr. Veerashekharapa (2009) studied the importance of microfinance in achieving money related incorporation. The paper focuses on the effect of the expanding hole formed after and supply of money related administrations in India which are tempted the expanding populace of the nation to be avoided from the formal budgetary credit framework on housing advance. Sendhilvelan and Karthikeyan(2007): RBI has expressed that the development towards general keeping money should have risen dependability and proficiency of the budgetary framework, yet without anyone else it cannot give a proper solution for the operational issues. Vidhayavathi. K (2002): found out in her research of the performance of housing finance institutions on some of the selected business factors and by the means of an opinion survey on the home loan seekers and concluded that apart from interest rate advertisement, service quality, courtesy and speed of various other important sectors affecting the growth of housing finance industry. Leelamma Kuruvilla (1999): researches on National Housing Policy and new activities in housing money. She proposed that the adjustment in the lawful casing work, changing the strategy for the housing money and the dynamic contributions of the Government in the housing division will moderate the housing issue.

## 3. RESEARCH METHODOLOGY

### Objectives:

1. To study the demographic profile for Home Loan consumers
2. To compare the home loan in private and public sectors bank.
3. To evaluate the customers satisfaction in the private and public sectors banks.

4. To compare the interest rate in private and public sector banks.
5. To evaluate the schemes in private and public sectors banks.

**Need of Study:** In the Comparative Study, SBI and HDFC banks will be taken as the Public sector and Private Sector banks respectively. Hereby, the survey of people will be conducted of both the banks regarding the Home Loan. Businessman, Jobbers, Self-employed, Students, etc. category will be surveyed.

**Sample Size:** The sample size will be consists of around 200 responses.

**Sampling Technique:** The convenient sampling technique is used in this survey.

**Sources of Data:** The sources of data are primary and secondary data. In this survey the primary data are collected through the questionnaire. The primary data is accurate, as these data are original. The secondary data are collected from various research papers, internet, and magazines.

## 4. DATA ANALYSIS

**Objective 1:** To study the demographic profile for Home Loan consumers

**Table 1: Occupation of Home Loan Consumers**

Occupation of consumer					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Professional	55	27.5	27.5	27.5
	Self-employed	35	17.5	17.5	45.0
	Salaried	55	27.5	27.5	72.5
	Others	55	27.5	27.5	100.0
	Total	200	100.0	100.0	

(Sources: Research Output)

### Interpretation:

From the above table of occupation of consumers for the home loan, it can be concluded that except self-employed other categories have almost same consumption for home loan.

**TABLE 2: ATTRACTION OF CONSUMERS TOWARDS HOME LOAN**

Attraction in home loan					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Interest Rate	129	64.5	64.5	64.5
	Schemes	46	23.0	23.0	87.5
	Services	24	12.0	12.0	99.5
	Others	1	0.5	0.5	100.0
	Total	200	100.0	100.0	

(Sources: Research Output)

### Interpretation:

From the above table, it is known that in the home loan the most attracted is interest rate(64%) in the banks, Schemes(23%) and services(12%).

**Table 3: Annual Income of Home Loan Consumers**

Annual Income of Consumer					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 2 lakhs	98	49.0	49.0	49.0
	2-4 lakhs	59	29.5	29.5	78.5
	4-6 lakhs	25	12.5	12.5	91.0
	Above 6 lakhs	18	9.0	9.0	100.0

Total	200	100.0	100.0
-------	-----	-------	-------

(Sources: Research Output)

**Interpretation:**

From the above table of Annual Income of consumers for the home loan, it can be concluded that the less the annual income of the consumer, more they prefer the home loan. According to this research, the 49% consumers falls under the category of less than 2 lakhs annual income who consumes the home loan.

**TABLE 4: PREFERRED BANK TYPE FOR LOAN**

Preferred Bank Type for loan					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	SBI	117	58.5	58.5	58.5
	HDFC	67	33.5	33.5	92.0
	Others	16	8.0	8.0	100.0
	Total	200	100.0	100.0	

(Sources: Research Output)

**Interpretation:**

From the above table, it is evaluated that the most preferred bank for home loan is SBI as it has the highest rate of percent (58.5%) and the percent of HDFC bank that consumer prefer for home loan is 33.5%.

**Table 5: Reliability of the Data**

Reliability Statistics	
Cronbach's Alpha	N of Items
0.551	2

(Sources: Research Output)

From the table, it has been noticed that the researcher has applied total 2 variable to check the satisfaction of the consumers in both private and public sector bank that is SBI and HDFC banks. The value of the Cronbach's Alpha is 0.559 which is less than 0.7 which proves the lower consistency among these two variables.

**Normality Test**

Tests of Normality						
	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	df	Sig.
Satisfactory ratio of facilities of SBI bank	0.226	200	0.000	0.833	200	0.000
Satisfactory ratio of facilities of HDFC bank	0.228	200	0.000	0.823	200	0.000

a. Lilliefors Significance Correction

(Sources: Research Output)

**Interpretation:**

From the above Normality table for checking perception of consumers towards the home loan, it has been noticed that the P value for all the variables for the home loan are less than 0.05 which indicates the rejection of Null Hypothesis due to which they are not normally distributed among each other and hence the researcher needs to go with the Non Parametric version of testing for further analysis as a part of proving inferential statistics.

**CHI SQUARE TEST**

H0: Annual Income and Preferred Bank Type are independent variables.

H1: Annual Income and Preferred Bank Type are dependent variables.

Annual Income of Consumer * Preferred Bank Type for loan Crosstabulation					
Count		Preferred Bank Type for loan			Total
		SBI	HDFC	Others	
Annual Income of Consumer	Less than 2 lakhs	67	27	4	98

	2-4 lakhs	31	23	5	59
	4-6 lakhs	10	10	5	25
	Above 6 lakhs	9	7	2	18
Total		117	67	16	200

(Sources: Research Output)

Chi-Square Tests			
	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	12.325 <sup>a</sup>	6	0.055
Likelihood Ratio	11.518	6	0.074
Linear-by-Linear Association	8.266	1	0.004
N of Valid Cases	200		

a. 3 cells (25.0%) have expected count less than 5. The minimum expected count is 1.44.

(Sources: Research Output)

### Interpretation:

From the above table, the value of Chi square statistics is 12.325. The  $p$ -value appears is 0.055. In this case, the  $p$ -value is greater than the standard alpha value, so the null hypothesis that asserts the two variables are independent variables is rejected.

### Correlation

Preferred Bank Type for loan * Lower interest rate in bank Crosstabulation					
Count		Lower interest rate in bank			Total
		SBI	HDFC	Others	
Preferred Bank Type for loan	SBI	108	8	1	117
	HDFC	15	51	1	67
	Others	2	3	11	16
Total		125	62	13	200

(Sources: Research Output)

Symmetric Measures					
		Value	Asymptotic Standard Error <sup>a</sup>	Approximate T <sup>b</sup>	Approximate Significance
Interval by Interval	Pearson's R	0.757	0.052	16.280	<.001 <sup>c</sup>
Ordinal by Ordinal	Spearman Correlation	0.745	0.048	15.719	<.001 <sup>c</sup>
N of Valid Cases		200			

a. Not assuming the null hypothesis.

b. Using the asymptotic standard error assuming the null hypothesis.

c. Based on normal approximation.

(Sources: Research Output)

### Interpretation:

From the above table, the value of coefficient of correlation is 0.75 it is high degree correlation, then it is said to be a strong correlation.

## 5. FINDINGS

- Many people prefer to buy the home loan in SBI bank than HDFC and other banks.
- The interest rate attracts the most in home loans than schemes or other services.
- Home loan procedure is much difficult for people demanding it as they do not have the proper knowledge regarding home loan.
- Many consumers buy the home loan directly through lenders.
- The facilities of both SBI and HDFC banks are reliable.



## 6. CONCLUSION

From this study, it can be concluded that both the private and public sector banks i.e. HDFC and SBI can be preferred for home loans. Both banks provide reliable facility and services, but mostly consumer prefers public sector banks as they are more secure and also lends at lower rate of interest.

The services offered by both the banks are competitive. Mostly people prefers public sector banks for home loan, as they trust more on public sector banks and the interest rate is lower compared to private sector banks. On the other hand, the private sector banks are introducing in our country, and the teenagers prefer private sector banks, as the private banks provide more services and facilities compared to public sector banks. The private sector bank doesn't demand more documents for home loan and the process of disbursement of home loan is fast. The private sector banks are currently prevailing in our country, as the satisfaction level of the consumers is more in private sector banks compared to public sector banks. There are different banks which provide similar services, but the process of the service is frequent in private sector banks. The customers select the scheme which is more beneficial for them and which they can repay easily. Despite the rate of interest, youths are more concerned and looking for the rapid services and other facilities and thus preferring private banks over public ones. In a nutshell, in present time, consumer's satisfaction in services is far more prioritized than the offers and schemes provided by the banks.

## REFERENCES

- [1] Prof. S.V. Satyanarayan and Mrs. Srilakshmi Ramu(2019)Study of Comparison Between Public and Private Housing Finance Companies in India.
- [2] Prof. Rekha. D. M and Gangamma. S.E(2019) A Study on Housing Loan Evolution and Performance in India.
- [3] Panchal Nilam, Minakshi Gupta, Bank of Baroda and Non-performing Assets- An analysis in Retail Loans segment, *Business Ecosystem : Interplay of Key Dimensions*, (Ed) Nilam Panchal, Himalaya Publishing House Private Limited, Mumbai- 2018.
- [4] Panchal Nilam , A study on Recent trend of Non-performing assets in Scheduled commercial banks of India,Research Hub – International Multidisciplinary Research Journal (RHIMRJ),,2015,2349-763,International,,Paper in Journal,Journal,Article,6.124,2,Both
- [5] Satish Manwani, Dr. Neeraj Singh and Dr. Vishal Sood(2019) Impact Factors Affecting Customer Satisfaction Towards Home Loan Scheme of ICICI: A Roburst Analysis
- [6] Raju Kaur, Kajal Chaudhary, Amit Kumar, Supreet Kaur Jaggi (2017) A Comparative Study of Home Loan Of SBI and HDFC: An Emperical study of Bathinda, Punjab.
- [7] Dr. B.C.M.Patnaik, Dr. Ipseeta Satpathy, D.Litt and Nihar Ranjan Samal(2017) Home Loan-An Overview
- [8] Murugan and Jansirani(2017) Customers Perception Towards Home Loan.
- [9] Gupta and Sinha(2015) A Comparative Study on Factors Affecting Consumer's Buying BehaviorTowards Home Loans.
- [10] Tripathi, S., Chaubey, A., & Goel, I. (2022). An Empirical Analysis of Potential Central Bank Digital Currency Adoption Procedure by Indian Government And Its Implications. *Sachetas*, 1(1), 32–38. <https://doi.org/10.55955/110006>
- [11] Chithra and Muthurani(2015)The Customers Perception Towards the Home Loan in HDFC bank in Chennai.
- [12] Panchal Nilam, Non-Performing Assets: A comparative Study of Public & Private Sector Banks,Journal of Management Research and Analysis,March,2018,2394-2770,International,Main,Paper in Journal,Journal,Article,4.878,5,Both
- [13] Kshitija Sawant and Shrikrishna Mahajan(2013) Housing Loan Management: A Study of KUC Bank LTD.
- [14] Goyal and Joshi (2011) A Study of Social and Ethical Issues in Banking Industry.
- [15] Panchal Nilam, An Impact of Mergers And Acquisitions on Productivity And Profitability of Consolidating Banking Sector In India,International Journal of Research,Jan,2018,2236-6124,International,Main,Paper in Journal,Journal,Article,5.7,7,Both
- [16] Kumar and Gulati (2010) Measuring Efficiency, Effectiveness and Performance of Indian Public Sector Banks. International Journal of Productivity and Performance Management.
- [17] Panchal Nilam, A study on the Return and Volatility of the top 05 PSUs and Private Banks with Reference to Nifty 50,International Journal of Management, IT & Engineering,May,2018,2249-0558,International,Main,Paper in Journal,Journal,Article,7.119,8,Both
- [18] Sendhilvelan and Karthikeyan(2006) A Basic Drive for Financial Inclusion.
- [19] Shukla, B., & Pandey, A. (2022). Credit Risk Management with Special Reference to Union Bank of India, Gorakhpur. *Sachetas*, 1(1), 10-16.

- [20] Vidhayavathi. K (2002) Role of Urban Housing Financial Institutions in Karnataka – A Study of Selected Housing Finance Corporation in Bangalore City.
- [21] Leelamma Kuruvilla (1999) Housing Finance in India, Indian Commerce Bulletin.