



PROBLEMS ENCOUNTERED BY THE BORROWERS IN AVAILING HOME LOAN WITH REFERENCE TO STATE BANK OF INDIA OF THENI DISTRICT

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Abstract

This paper reveals that the problems faced by the borrowers with reference to State Bank of India in Theni District from 300 respondents was 'high processing charge' is attributed as the major problem with the mean score of 58.34. 'Rigid procedures' and 'lack of customized services' was the second problem by most of the respondents faced mean 53.55'. 'More margin' money is insisted 'was the third problem with mean score 46.91. Dragging or behaviour by staff was fourth problem with a mean score of 43.68. The fifth 'Documentation Charge is unreasonable' problem with mean 37.51. The six problem 'Time consuming procedures' with mean 37.51. The least important problem was Computation of interest always done on annual balance with a mean 33.96.

Keywords: State Bank of India, Home Loan, Problems, Garrett Ranking.

Introduction

State Bank of India is a major player in the Indian housing finance market with 17 percent of the market share, same as HDFCs have as on March 2010. The SBI Home loan schemes are specifically designed to meet the varied requirement of the customer. SBI Home Finance registered a net profit 24.63 crore in the year ended March 31, 2009. SBI has been awarded as the Most Preferred Home loan provider. HDFCs Home Loan India have been serving the people for around three decades and providing various housing loan according to their varied needs at attractive & reasonable interest rates. They granted loans & advances to middle class people, small traders, self employed person, farmers, hawkers, retailers etc. as per the need of the person. Bank granted short term,



medium term and long term loans and advances. The State Bank of India is the country's oldest bank and a premier in terms of balance sheet size, number of branches, market capitalization and profits. It is the two hundred year old public sector Bank. It is the bank having very wide product mix, such as project finance, Home loan, Auto loans, Car loans, Education loans, Loan to small Medium Enterprises, Government business, Rural and Agribusiness, corporate Business etc. SBI is moving ahead with cutting-edge technology and innovative new banking models, to expand its rural banking base, looking at the vast untapped potential in the hinterland and propose to cover 100,000 villages in the next two years.

Review of Literature

According to **J.P.Sah (1991)** "housing is not a static but a growing problem Rapid urbanization particularly in those countries which have just begun to move along the path of economic and industrial development. It implies structural changes in the economy, and a drift of population from the rural to urban areas. As this urban ward drift of population gets accelerated, it creates an immediate problem of housing the migrant in the receiving urban areas.

As cited by **K.N.S.Nair** and **S.GJayachandraRaj (1994)**, the population of the state is expected to grow at the rate of 1.1per cent to reach about 325 lakhs by the turn of the century from 291 lakhs in 1991. In order to eliminate housing shortages, about 15 lakhs will have to be provided by the public sector assuming that the current trend in private sector will be maintained.

According to **Rangwala (1977)**, the magnitude of the housing problem in our country was heavy that it will require considerable passage of the country to offer a sweet home to every family in our nation .In order to fulfill this objective, the concept of town planning is accepted by our nation and accordingly haphazard development of land restructured to a certain extent.

Statement of Problem

Housing finance is the most vital function of a financial institution which is permitted to do so by the RBI and NHB with the help of both central and state Government. This institution offers a wide variety of housing loans depending on the needs of the customer. Among various institutions the SBI plays an important role in providing housing finance not only to urban people but also to the



needy People living in semi urban and rural ares. Theni district, basically an agriculture oriented and rural basted district gets financial assistance to develop many infrastructure facilities including housing. As one of the leading housing loan provider, the SBI through its various schemes and with a vast net work of branches attempts to satisfy the housing demand in this area. The researcher, being a native of Theni district is interested to understand the role of SBI in promoting “own house” culture in this area. He is also interested in exploring the problems faced by the borrowers in availing bank.

Objective

The objective of this paper is to study the problems encountered by borrower in getting home loan in Theni District.

Methodology

The study is based on both primary and secondary .The secondary data were collected from the audited annual reports of the company journals and newspaper. The primary data were collected with the help of a well-constructed interview schedule.

In Theni district, State Bank of India has branches in many numbers of places serving all nook and corner of the district. For the purpose of sampling only six major branches were chosen based on the period of existence Branches located at Theni Bodinayakanur, Andipatty, Peryakulam, Uthamapalayam and cumbum were thus chosen. Since total number of house loan borrowers is varying from year to year a sample size of 50 borrowers is fixed from each such branch. Thus, a total of 300 respondents from part present study.

Tools

To analysis the problems encountered by the respondents in borrowing home loan from SBI in Bodinayakanur, they were asked to value each problem in the order of merit. Then the rank assigned by the respondents was converted in to score when number of items ranked is different from respondent, the per cent position of each rank is found by using the formula,

$$\text{Present position} = (100(R_{ij}-0.5)) / N_j$$



where,

R_{ij} = Rank given to i^{th} factor by j^{th} individual

N_j = Number of factors Ranked by j^{th} individual

By referring to the table given by Garrett, the percent position estimate was converted into scores then for each factor the scores of various respondents was added and divided by the number of respondents. The scores they obtained for each factor were arranged in descending order the factor with the mean value was considered as the most important.

Results and Discussion

While conversing with the customers of SBI, the researcher understood that they faced so many problems while borrowing loan of course each customer has encountered a type of problem which may not be similar to the one that faced by the others. However there are host of problems that are commonly expressed by all the respondents. It is to be noted that though there problems are common, the intensity of the same is different from one another.

The following are the problems that are generally confronted by most of the customers.

High Processing Charge

All the lending banks are empowered by the RBI to collect processing charge from the customers whether they actually sanction the loan or not. In fact this is a charge levied by the bank for processing the loan application, verification of documents and for the man power incurred for the same. The RBI has not specified the quantum of such charge and hence there is no uniformity in collecting processing charges by various lenders. There are few banks which altogether do not collect processing charge at all. But SBI collect processing charge invariably from all the customers. Many of the customers expressed that such charge collected by SBI is somewhat higher than the charge collected by other nationalized banks.



Rigid Procedures and Lack of Customized Services

It is opined by many of the customers that the loan borrowing procedures followed by SBI is very tough and very often the customers felt inconvenient and humiliations.

Further it is felt hard and fast rule stipulated by the bank, some time cannot be followed in practice. The bank never considers practical situations when some type of flexibility is necessary. Similarly, the bank is not considering the differential needs of the customers. In other words, the bank tries to impose its tailor-made rules to all types of customers irrespective of their socio economic background. In modern days the third generation private banks offer very many services to their customers. These are absent in SBI.

More Margins

‘Margin’ money means the share of actual construction cost a customer has to meet from his own pocket. Normally a lending bank may insist 10 per cent to 30 percent of the total cost as the margin money. It is believed that the margin money creates a sense of responsibility on the part of customers. This indirectly stimulates them to repay the loan they borrow. Here again many of the SBI home loan borrowers felt that the margin money insisted by SBI is comparatively higher than that of other banks.

Dragging on Behavior of the Staff

Customer friendly approach is the catch word of modern marketing concept. Quick decision making is vital for accomplishment of any task including banking transaction. Majority of the customers expect that their wishes to be fulfilled with in no time at less effort. Dragging on instances discourage them from preferring such source. State bank of India is known for customer’s unfriendliness. Its majority of the staff still has the superiority complex that they are operating government accounts and the support of the common account holders is not necessary for bankers’ growth. But time has changed a lot. Cut throat competition prevails in the banking sector. Private operators are doing a lot of services to the customers.



Unreasonable Documentation Charge

Home loan is granted against sufficient security. The security may be personal security of the borrowers. In addition to that the house to be built / purchased must also be mortgaged in favor of the bankers'. In the event of default the banker is completely protected in this instant. The mortgage is of two types. 1) English mortgage and 2) Usuferous mortgage. In English mortgage all the relevant documents are to be registered for which a sizeable amount is to be spent towards documentation. However, in the case of usafirous mortgage no such registration is compulsory at the instance of sanction of loan. However the banker can register those documents in favors of him only when there is a default. SBI always insists English mortgage while granting home loan. Therefore many of the borrowers felt that the documentation charges collected by them are unreasonable.

Time Consuming Procedures

At present there is no stipulation with regard to time limit for processing customer's application. The bank has no obligation to dispose the application within the time frame. In practices it takes so much time to complete the formalities. The experience of each customer is different from others. The powerful customer can get things done in short period whereas others have to wait for a longer period. According to majority of the customers all the branches of SBI in Theni district take unreasonable longer period to process their home loan application.

Computation of Interest on Annualized Balance

There are different methods adopted for calculating interest for the home loan. Simple interest method and compound interest method may be followed by the banker. Similarly the interest may be charged on monthly balance, quarterly balance, half yearly balance or annual balance according to the teams and condition of the agreement. In SBI interest is calculated on annualized balance which is always disadvantageous to the customers.

The analysis of problems faced by the respondents was computed by using Garrett Ranking Technique and the result are presented in Table 1.



Table 1 Problems of the Respondents to avail Loan from SBI

S.No.	Problems	Mean Score	Rank
1	High Processing Charge	58.34	I
2	Rigid Procedures and Lack of Customised Services	53.55	II
3	More Margin money is insisted	46.91	III
4	Dragging on Behavior by Administrative Staff	43.68	IV
5	Documentation Charge is Unreasonable	40.01	V
6	Time Consuming Procedures	37.51	VI
7	Computation of Interest always done on Annual Balance	33.96	VII

Source: Primary data

The analysis reveals that 'high processing charge' is attributed as the major problem with the mean score of 58.34. 'Rigid procedures' and 'lack of customised services' was the second problem by most of the respondents faced mean 53.55'. 'More margin' money is insisted 'was the third problem with mean score 46.91. Dragging or behaviours by staff was fourth problem with a mean score of 43.68. The fifth 'Documentation Charge is unreasonable' problem with mean 37.51. The six problem 'Time consuming procedures' with mean 37.51. The least important problem was Computation of interest always done on annual balance with a mean 33.96.

Suggestions

- If there are any kind of hidden charges than it must be disclosed to customer before giving loan
- SBI must take some steps so that customers can get their loan in time. Like phones verification by customer care that one customer is got their loan on time or not. It must be before a certain date so necessary steps can be taken.
- Advance product selling agents must not give any type of wrong information regarding advance home loan.
- Agents should be trained, well educated & proper trained to convince the people about different advance products.
- It is the duty of the bank to dislodge all the material fact regarding advance product. like interest charged, repayment period, other type of charges ,etc



- Special scheme should be implemented to encourage both customer and agents.
- SBI bank has Flexible loan repayment option but has fixed repayment options
- Loans should be made easily available there should be fewer formalities while providing loans.
- The respect the customs by giving them individual attention and also help them to know the bank better by public sector bank.
- The formalities and paper should be reduced while providing the loan to the customers.
- The behavior of the staff of the bank toward the customer should be more personalized.
- Relevant information should be provided to customers from time to time
- Emphasis should be given on retaining customers
- People who deal with customers should have complete knowledge about the housing finance industry.

Conclusion

The Present study is a humble attempt to bring out the attitude of the home loan borrowers of SBI towards various connected issues. If the suggestion put forward by the researcher is considered for future policy making, she would consider this as a rewarding exercise. The competition unleashed by private sector third generation banks can effectively be faced by SBI only when their suggestions are taken in to account.

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