Innovative Practices in Housing Finance Sector

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Abstract

Indian financial sector has witnessed widening and deepening of its services since liberalization in 1992. The expansion and diversification became the hallmark of financial sectors especially in banking sector. The housing finance is a integral part of services industry exclusively one of the categories of financial fund based services. The housing industry has been placed under priority sector as housing is a human necessity along with food and cloths. In India, there is an ever-widening supply - demand gap in housing industry. The housing sector in India has witnessed dramatic changes over the last few years. Impact of the housing sector on any economy is significant as it caters to multi-faced basic human needs. Integration of housing finance industry is a major impediment with capital market for its further growth. Despite this, the industry is on growing path mainly due to a consistent decline in interest rates, tax incentives given by the government and changing income profile of middle class population.

Housing finance system in India in the formal sector is primarily dominated by two major types of institutions, viz., Commercial Banks and housing finance companies and a very small market share as accounted for by third group of institutions, cooperative banks. Even though HFCs are specialized institutions in housing finance, their market share and profitability are under threat year after year. While the institutional finance to housing sector in general and bank finance in particular has shown an impressive growth during more than one decade. It is true that the growth in housing sector has been fuelled by the growth in housing finance by banks. This case study would shed light on innovative strategies on housing loan practices of the public sector banks.

Keywords: *Housing Finance, Lending Practices, Customer Satisfaction & Innovative Strategies*

Introduction

Today's financial services market requires new strategies for survival and continued operation. This will enable them to capture the opportunities with the low risks to meet the tough competition from global and domestic players. The

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financial services marketing demands more human skill set, attitudes and motivation. The personal touch and quality services are more important in this sector. The financial service is customer specific and customer friendly. Hence customer satisfaction is paramount in this sector.

The housing finance is a integral part of services industry. The housing industry has been placed under priority sector as housing is a human necessity. In India, there is an ever-widening supply - demand gap in housing industry. The housing sector in India has witnessed dramatic changes over the last few years. The Government has been supporting the housing sector through a series of fiscal incentives. The increasing demand for housing has increased the demand for housing finance too. The exponential growth of housing finance market has promoted many aggressive new players to enter and compete for market share. The ultimate beneficiary in this stiff competition is the home finance seeker. The players in the housing finance market, due to tough competition, started offering concessions to the home finance seekers. They compete with one another to provide most value added and efficient service to the customers. Today the housing finance market is virtually dominated by the customer with various home loan options. Housing finance providers should express integrity, reputation for quality, and timeliness of delivery in this competitive environment.

Conceptual Approaches of Housing Finance

Housing Finance: The term housing finance commonly referred to the loans availed by a household for the purchase or construction of a housing unit, involves mortgaging of the property as collateral against which the loan has been taken. As housing loans are given under the condition of mortgaging the housing property for which the loan has been availed, the term mortgage finance has become synonymous to housing finance.

Housing Finance Sector: Housing finance covers a wide range of issues, and the concept often varies in its coverage across countries; however, it has been defined mainly in terms of residential mortgage credit. Boleat (1985) for instance describes housing finance in terms of the flow of funds to home buyers. According to Lea (2000), housing finance includes a broad array of institutional arrangements which include both general and specialized institutions acting as primary or secondary lenders, with the common purpose of channelling funds from savers to households demanding housing loans. Warnock and Warnock (2007) describe housing finance as the provision of long-term financing for house purchase. King (2009) refers to housing finance as the funds used for building and maintaining the housing stock of a country. Chiquier and Lea (2009) look at housing finance as a link between multi-sector issues which are in a continuous process of change on account of the economic, cultural, and regulatory environment of a country.

Table 1: Evolutionary Phases of Indian Housing Finance System

During Period	Phases	Evolution
(1)	(2)	(3)
Before 1970	Phase – I	Government of India Domination
1970-1980	Phase – II	HUDCO and HDFC Establishements
1981-1990	Phase – III	Establishment of National Housing Bank
1991-2000	Phase – IV	Liberalization of Interest Rates
Post 2000	Phase – V	High growth

Source: Chandrasekar, V. (2010). Housing Finance and Housing – A view from India and Beyond, Indu Centre for Real Estate and Infrastructure.

Characteristic Trends of Indian Housing Finance Market: In India, Monies spent on housing were mostly from own savings, sale of assets, borrowings from relatives, friends or the money lender. In the recent years the mind-set has changed, with more individuals open to a credit culture. This is reflected in the rapid growth of housing loans, credit cards, auto finance and personal loans.

⇒ Increasing Urbanisation

⇒ Demographics of Housing Loan Market

⇒ Enhanced Affordability for Housing Assets

⇒ Market Shift finally from Fixed to Flexible

⇒ Repayment Schedules of Housing Loans

⇒ Tax Benefits of Income from Housing Property

⇒ Varieties of Housing Loan Products

⇒ Housing Loan Marketing and Distribution

⇒ Refinement of Housing Loan Prepayments pattern

The housing finance market specifically, deals with cross-selling of products and services which is popular. Thus a person looking for a housing loan is also offered life insurance, home protection insurance, and other privileges on banking facilities. For a dedicated housing finance company, building up a large network is often time consuming and expensive.

Innovative Promotional strategies of housing finance institutions

- Advertisement in print media with summarized information
- Publicity through direct selling agents.
- Advertisement through pamphlets , Local Cable TV Network.

- Mail to existing customers.
- Telemarketing and/or messages to registered contact numbers.
- Conducting housing loan mela.
- Keeping Brochures at the offices and project sites of builders.
- Executive builders meet periodically organized by lending banks.
- Visit to various Schools/Colleges/ Government Departments /reputed private sector companies for making presentations on housing loan scheme.
- Establishing Liaison with reputed architects/vaastu specialists.
- Designing Liaison with builders by visiting their offices/ project sites.
- Banners as strategic locations.
- Hoardings at various sites/ projects under construction.
- Convince people to buy their own house instead of paying rent.

In addition to the above promotional strategies Housing Finance Companies follow certain special promotional strategies to increase their market share in the home loan sector. Following are the promotional strategies of housing finance banks.

- Tap newer segments such as packages for professionals like doctors.
- Single clearance of loans up Rs.15 lakhs.
- Provide personalized services to customers.
- Competitive pricing in terms of lower interest rates and front end charges.
- Increase reach by penetrating into rural and semi urban areas.
- Improving the credit delivery mechanism and thus reducing the time lag between loan sanction and its disbursement.
- Aggressive marketing and greater publicity through, newspaper, websites.
- Waiver of processing and administration fees, gift offers and other incentives.
- On the spot loan approval without sufficient documentary evidence and loan — to-value ratios that exceeded 100%. This was supplemented by cutthroat competition on the pricing front, with each new player trying to undercut the other.

Empirical Research on Housing Finance Sector

The housing finance being a financial service should possess a high level of marketing effectiveness, if it has to win over the customers support. This ultimately results in company's increased financial performance. The Indian housing finance sector is marked by diverse player of all sizes along the spectrum. Due to this interest rates and convergence is declining. In this backdrop moment, it is no more possible to use interest rate differentials

as a competitive tool. Hence customer satisfaction has emerged as a competitive tool to differentiate one housing finance company from the others. This demands design and implementation of innovative marketing strategies. Accordingly housing finance institutions are coming out with many new marketing strategies to attract the customers.

Need for the Study: Any service oriented organization needs to constantly innovate to succeed. Innovation is about making things better, faster, or cheaper than competitor. It drives ongoing improvements and may help unleash a new idea that changes the rules. "Innovation leading to increased productivity is the fundamental source of increasing wealth in an economy," says Tim Mendham in his article, "The Meaning of Innovation," at fastthinking.com. Banking companies also need to implement innovative practices continuously, effectively and proactively in all their financial services.

Scope for the study: Impact of the housing sector on any economy is significant as it caters to multi-faced basic human needs. Integration of housing finance industry is a major impediment with capital market for its further growth. Despite this, the industry is on growing path mainly due to a consistent decline in interest rates, tax incentives given by the government and changing income profile of the Indian middle class population. Housing finance system in India in the formal sector is primarily dominated by two major types of institutions, viz., Commercial Banks (CBs) and housing finance companies (HFCs) and a very small market share as accounted for by third group of institutions, cooperative banks. Of the two major groups, the HFCs had dominated the market till year of 2001-02, later it was overtaken by commercial banks from the year of 2002-03 and since then commercial banks have been enjoying the dominant share of the market. Even though HFCs are specialized institutions in housing finance, their market share and profitability are under threat year after year.

Objectives of the Study

- To understand theimportance of innovative strategies in financial services sector exclusively in Housing Finance Industry.
- To study of public sector banks' practices on housing finance
- To assess the housing loan customers satisfaction level with regard to the marketing strategies.

Methodology and Instrumental aids of the Empirical Research

The main reason for continued interest in this area of research is the ever changing banking business environment across the world. The objectives of the present study are to investigate the determinants of customer satisfaction of Indian financing institutions with focus on commercial banks engaged in housing finance.

Sample of the Study: In the first stage of sampling Ananthapuram district

of Andhra Pradesh was chosen as geographical limit. Of all the commercial banks located in the district and engaged in housing finance, SBI, Andhra Bank and Syndicate Bank were selected as sampling units.

Sampling Method: Convenient sampling method was adopted in choosing ultimate sample units both lending institutions and housing loan borrowers of the respective banks also those were located in in Ananthapuram district.

Sample Frame: Sample frame of the study consists 50 branches and 250 customers of the selected banks.

Data Sources and Survey Instrument: Used both primary and secondary data. The primary data was collected from banks and loan customers through questionnaire.

Statistical Tools Used: The statistical tools used in the study are mean, standard deviation and other basic statistical tools applied to trace the output of the research work.

Limitations of the Study

- As the sample of the study was drawn from Anathapuram district, the applicability of findings to larger geographical are should be with caution.
- Also the sample institutions for the study is limited to only selected public sector banks viz., State Bank of India, Andhra Bank Syndicate Bank.
- The bank housing loanee customers opinion and their satisfaction levels based on psychological factors, perceptions, experience, situational factors etc.

Housing Finance Lending Practice by Banks

The customers' satisfaction has been conceptualized in several ways. It consists of customers' expectations, performance interactions, pleasure or displeasure, and the evaluation of the benefits of consumption. The financial services companies therefore need to consider market characteristics, which consist of consumer contact. The financial services market requires new strategies to survive in the competitive market.

The marketing is regarded as the pivotal force behind strategic planning and business operations. The financial service organization, should study the market, recognize the numerous opportunities, select the most appropriate market segments, and offer superior value to meet the selected customers' needs and wants. In financial services, good customer relations and their satisfaction is the single major factor contributing to the success of an organization. The successful financial services companies share a strong focus and a heavy commitment towards marketing. The modern marketing seeks to attract new customers by promising superior value and to keep current customers by delivering satisfaction.

Table 2 : Housing Finance Lending Practices and Customers Criticalness

Sl. No.	Key Parameters of Housing Loan Process	No. of Customers	No. of Banks
(1)	(2)	(3)	(4)
1	Pre-approval documentation	250	50
2	Assistance in obtaining required clearance from local body authorities	250	50
3	Providing guidelines for submission of all required documents	250	50
4	Appointment at convenient times to fill in and submit the requisite forms and documents	250	50
5	Post-loan approval documentation	250	50
6	Disbursal of loans	250	50
7	Rate of Interest, Loan repayment & settlements	250	50
8	Otehrs (EMI, LTV, Service and documentation charges)	250	50

The above table shows the vital factors which attracts more customers in selecting the lending bank for taking house loans. Herewith considered some important valid variables which generally expect customers like low interest rates, flexible loan repayment schedule, less service charges & easy documentation process and miscellaneous. The dominant reason identified in the choice of loaning institution include lower interest rates and flexible loan repayment schedule.

The important enquiries which loanees generally make on housing finance banks before arriving at borrowing decisions are shown in the above table. The loanees enquiries are on LTV, EMI calculations, documentation process etc. The second major enquiries were on loan procedural process and rest followed by feedbacks from current house loannes from lending bank.

Proactive Strategies of Banks in Housing Finance

The following are some proactive initiatives shall be undertaken by lending institutions in order to achieve lion share of the target market. The perception on critical stages in institutional housing loan process varies from loanee to loanee. Major problems faced by loanees while borrowing housing loan from commercial banks are are documentation process and

time delays, procedural delays and non-cooperation, and understanding LTV and EMI respectively. By calculation paper work non-cooperation of loaner bank staff and loanee understanding of LTV/ EMI are significant problems.

Table 4 : Innovative Approach of Hosing Finance Lending Institutions and Customers Satisfaction Levels

Sl.No	Dimensions	Weighted Average Scores	Anchor Statements
(1)	(2)	(3)	(4)
1	Bank willingness to help customers in providing prompt services	2.64	Low Fair
2	Bank responds quickly to customer problems	2.50	Low Fair
3	Customers are treated with care and importance	2.65	Low Fair
4	Bank provides trustworthy and valuable services to customers	2.80	Low Fair
5	Bank gives accurate and consistent reliable information	2.66	Low Fair
6	Bank staff avoid technical Jargons in conversation	3.18	High Fair
7	Bank staff give schedule to appointments and adhere it	3.16	High Fair
8	Staff who answer over the telephone are good and polite	3.10	High Fair
9	Bank maintains organized data bases for prompt service	3.34	High Fair
10	Bank provides right information to customers	3.17	High Fair
11	Bank sort out customer problems and issues	2.68	Low Fair
12	Bank services are highly Customized	2.78	Low Fair
13	Bank maintains regular contacts to retain its Customers	3.34	High Fair
14	Cross selling of products is done effectively by bank	2.56	Low Fair
15	Comprehensive core banking facilities	3.22	High Fair
16	Flexi counter facilities	3.18	High Fair

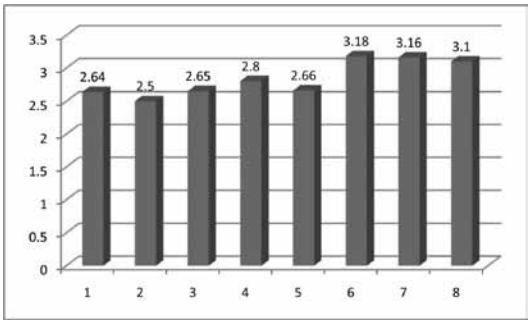
17	Sufficient number of counters	3.42	High Fair
18	Comfortable seating for customers in wait	3.06	High Fair
19	Effective ATM service in the branch	3.30	High Fair
20	TV/Daily news paper	2.37	Poor
21	Pamphlets and brochures distribute of bank	2.32	Poor
22	Bank direct correspondence about the loan offers	2.41	Poor
23	Bank advertisement through sponsors and Cut outs	1.91	Poor
24	Bank's flexi board regarding loan melas	2.0	Poor

Source: Field data.

Note: Scores between > 2.60 - ≤ 3.0 are low fair.
Scores between > 3.00 - ≤ 3.4 are high fair.

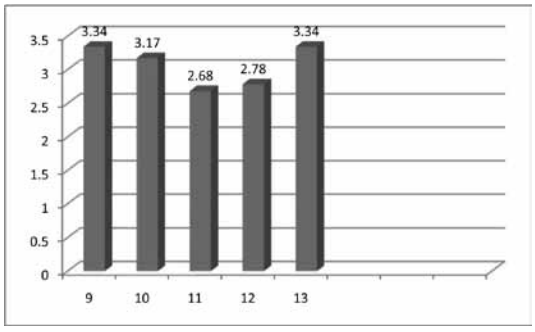
The above table consists of total 24 dimensions of innovative home loan lending practices of banks. All the variables are divided into four sub-parts in order to make easy to understand and as well to exhibit in graphical presentations.

Figure 1: Impact of CRM Activities of Bank Lending Practices



Customer orientation and Customer Relations Management (CRM) are captured using 8 dimensions related to them. Loanee responses are measured on 1-5 scale. Summary statistics in the form of weighted scores and corresponding anchor statements are shown in columns 3 & 4 respectively in table 4 . 3-11quick perusal of the table reveals aspects 6, 7, 8, were rated high fair by the respondents and other aspect 1, 2, 3, 4, 5, were rated low fair. Thus loanees expressed mixed opinions on customer orientation and CRM.

Figure 2: Impact of Interactive Attitude of Bank Lending Practices



Summary statistics in the form of weighted scores and corresponding

anchor statements are shown in columns 3 & 4 respectively in table 4 . quick perusal of the table reveals aspects 9, 10 & 13 were rated high fair by the respondents and other aspects 11 & 12 were rated low fair. Thus

Figure 3: Impact of Proactive of Bank Lending Practices

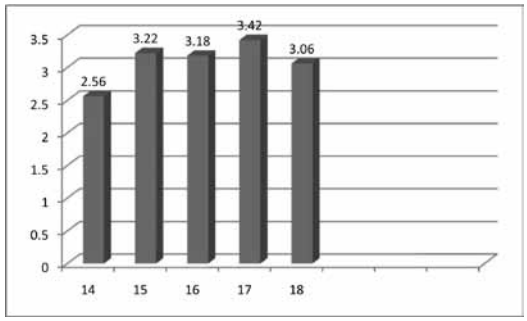


Figure 3 presents opinions of the respondents on loanee banks' proactive of the five dimensions considered, fourteenth dimension is rated low fair and other remaining four of the dimensions represents high fair. This analysis will lead to a conclusion that housing loan barrowers have positive views on the infrastructural felicities of lending bank.

Figure 4: Loanee Perceptions on Promotional Activities of Banks

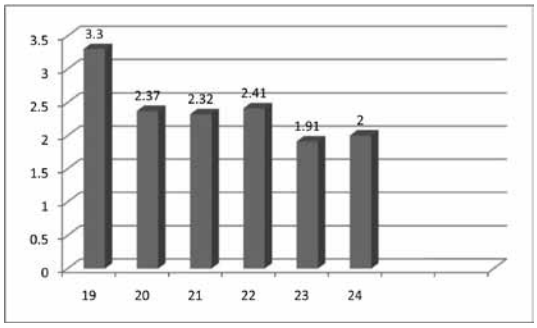


Figure 4 presents impact of dimensions of promotional activities on housing loan borrowers. It is disheartening to note that loanee respondents have poor perceptions on promotional activities of lending banks. None of the promotional activities followed by the loanee banks have yield positive impression and feedbacks on the loanee perceptions

Findings of the empirical research

- Pre and post-loan approval documentation is perceived as a critical stage in housing loan process by the borrowers.
- Provision of guidelines for submission of all required documents is the most help received from loanee bank by loanees followed by appointment at convenient time to fill-in and submit require forms
- Loanees made prior enquiries in selecting lending bank, which are related to LTVs and EMIs, loan procedural process and its overall costs sand feedback from current house loan borrowers.
- Total sample respondents, high customer satisfaction is associated with to own a big home as reason for approaching loanee bank, low service charges and easy documentation for selecting lender bank; medium satisfaction is associated with bank assistance in getting required clearance from local body authorities; low satisfaction level is associated

with loan flexible interest rates and flexible repayment schedules, lack of funds as a reason for approaching a lending bank, enquiries like feedback from current home loanees and loan procedural process and its overall costs; lending bank's help in providing guidelines.

- There are significant differences between rate of interest on loan sub-groups and customer problems associated with bank loan application support to customers.
- There are significant difference between bank loan interest slabs and customers problems associated with information reporting by housing loan banks.
- From bank wise analysis customer satisfaction levels with loan quantum are significant, with bank attitude significant, with interpersonal communication significant with information reporting significant, bank infrastructural facilities significant, with all housing finance practices significant.

Suggestions

- Pre-and post-housing loan sanction documentation should be simplified to make the process customer-friendly.
- Since service charges on loan processing by lending banks appear to be onerous, there is a need to slash down these charges.
- Pre-closer of home loans and reduction of loan amortization periods should be permitted to suit the improvements in economic status of loanees.
- Customers need to be more and better informed on LTVs and EMIs in pre-loan sanction enquiry phase.
- In spite of availing of loans from public sector banks, customers still resort to borrowing from informal home markets, average loan amounts sanctioned should be increased after securing the loan through mortgage.
- All sample banks should specifically focus on loanee younger age groups with regard to bank-customer relations and loan promotional activities.
- Three sample banks should improve the loan application support to the farmers when they approach for housing loan.
- In general all banks should extend due diligence in dealing with businessmen customers as to loan quantum.

Conclusion

Healthy trends in home loan market in recent years are: low and flexible interest-rates, long loan amortization period, tax incentives, affordability of house loans etc. Bank housing loan process is a lengthy and cumbersome process. In the present study this process

is conceived as happening eight clearly demarcated sub-processes which are alternatively called modules. Pre-home loan borrower enquiries are centered around LTVs and EMI. Pre-and Post-loan approval documentation is critical stage in loan process. Across banks customers satisfaction is associated with innovative strategies mixed results are reported on customer satisfaction and customer / loan related aspects – in some cases association is found and in others no such association is observed. There is utmost need to concentrate on loan service quality.

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