

A COMPARATIVE STUDY OF HOME LOANS OF ICICI AND HDFC BANK AN EMPIRICAL STUDY OF UJJAIN, M.P.

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Abstract

Every citizen dreams of owning their own home, especially when considering a mortgage. Home loans enable you to purchase a house in installments, making homeownership achievable. Instead of paying the full amount upfront, you can spread the cost over monthly payments with an interest rate. Many institutions and banks offer affordable loans at low interest rates. The loan is granted to a borrower to buy or construct a new house based on eligibility and the bank's lending criteria. With government incentives such as tax benefits, the housing finance sector has seen considerable growth. One of the key advantages of a home loan is the favorable interest rate it offers. This sector will continue to see high demand for housing loans, and competitive lending rates are likely to be maintained for an extended period.

Key words: Economic Growth, HDFC Bank, ICICI Bank, Interest Income, operating Exp., Net Profit, Profitability

Introduction

The demand for housing has surged due to population growth, urbanization, the state of current housing stock, and changes in family structures. The rise of information technology and data-driven industries has exacerbated the housing shortage in India, particularly in urban areas. Due to the substantial investment needed for housing, lack of funds is a major barrier to development. Many aspire to own a home, especially when opting for a home loan to pay in installments. Individuals spend a significant portion of their lives in their homes, making it a crucial aspect of their well-being. A sound economy is a key national objective, with the banking sector playing a vital role in economic growth. India's financial system comprises public sector banks and private banks, with the latter introduced in 1993 to enhance the banking sector's performance. Private banks like HDFC and ICICI are recognized for their capital assets, profitability, and efficient customer service. ICICI Bank, established in 1954 in Mumbai, is the second-largest bank in India by assets and offers a range of financial services. HDFC Bank, founded in 1994 in Mumbai, ranks as the largest bank in India by assets and focuses on being a premier Indian bank, providing services such as housing loans, insurance, FOREX services, and premium banking to meet its goals.

Types of home loan

There are different types of home loans available in the market to cater borrower's different needs.

- Home Purchase Loan
- Home Improvement Loan

- Home Extension Loan
 - Home Conversion Loan
 - Home Construction Loan
 - Land Purchase Loan
 - Bridge Loan
 - **Home Purchase Loan:** These are fundamental home loans used to buy a new home, including flats, bungalows, or row houses.
 - **Home Improvement Loan:** These loans are for renovations on an already owned home, covering exterior repairs like waterproofing, as well as interior upgrades such as tiling, plumbing, electrical work, painting, and more.
 - **Home Extension Loan:** Available for building a new home, the documents required by banks differ slightly from home purchase loans. Depending on when the land was bought, the land cost may or may not be included in the total property cost evaluation.
 - **Home Conversion Loan:** Home Extension Loans are for expanding an existing home, like adding an extra room, requiring approval from the relevant municipal authority.
 - **Home Construction Loan:** This loan allows borrowers with an existing home loan to move to a new home, financing the transfer of the current loan to the new property and covering additional funding needs.
 - **Land Purchase Loan:** These loans are for buying land for residential development or investment purposes, regardless of immediate building plans. However, construction must be completed within three years on the same land.
- g) **Bridge Loan:** Bridge Loans are tailored for individuals looking to sell their current home and purchase a new one. This type of loan provides financial support for acquiring the new property until the old one is sold.
- h) **Top up loans:** These loans allow homeowners to leverage the equity in their property without selling it, to fund various needs such as higher education, purchasing furniture, or meeting business requirements. The loan has a maximum term of 10 years and can be obtained 1 to 2 years after the last disbursement of the existing loan or upon the possession/completion of the supported property.

Literature Review

In a study by Kumar and Kumar (2016), the financial performance of four public sector banks was analyzed from 2011 to 2015. By comparing SBI with other public banks using various financial ratios, they concluded that SBI was superior. Karri et al. (2015) employed the CAMEL model and T-test to assess the financial strength of Bank of Baroda and Punjab National Bank. Based on 14 financial ratios, they found that Bank of Baroda outperformed Punjab National Bank on average.

Chintala and Kumar (2016) focused on the financial performance of public and private banks. They analyzed the total income, interest income, and service income of SBI, Axis, PNB, CBI, IDBI, HDFC, ICICI, Kotak, and IndusInd Bank for the period from 2011 to 2016. The study concluded that private sector banks were the most profitable and experienced the fastest growth.

Additionally, Kaley (N.D.) examined the financial performance of State Bank of India and HDFC Bank from 2013 to 2018. After evaluating annual income, net interest income, operating profit, net profit, and the CAMEL model, it was found that HDFC Bank outperformed others. These findings were further supported by a study comparing the

financial performance of public and private sector banks in India from 2009 to 2012 (Goel and Rekhi, 2013). The ratio analysis and correlation coefficient matrix indicated that HDFC Bank performed better compared to SBI, Axis, PNB, ICICI, and Union Bank.

Murugan and Jansirani (2017) conducted a review in Chennai to understand client perceptions towards home loans by selecting 500 clients randomly. The study aimed to thoroughly evaluate the performance and operational challenges faced by the banking sector in providing loans to the housing industry. Based on the findings, it identified areas of concern and essential interventions needed.

Chithra and Muthurani (2015) conducted a study on customer perception towards home loans in H.D.F.C. in Chennai with a sample size of 85 through simple random sampling. The study revealed that H.D.F.C. bank's home loan product portfolio caters to various consumer needs. The bank has gained goodwill, which can be leveraged to enhance its services. Introducing new promotional activities and services can significantly help the organization expand its business.

Objectives of the Study

- Conduct a comparative study of home loans between ICICI and HDFC banks.
- Evaluate customer satisfaction regarding home loans from ICICI and HDFC banks.

Research Design:

Research design encompasses the technical aspects and processes involved in gathering essential information. It serves as the overarching framework for collecting information in any research process. The primary goal was to collect pertinent data that met our criteria and could be analyzed effectively in later stages of the study. This needed to be achieved with minimal cost and effort within a specific timeframe. To conduct the study on the comparative analysis of home loan programs provided by ICICI Bank and HDFC Bank, as well as to assess the satisfaction levels of consumers in Patiala city, I opted for a Descriptive Research Design. This approach offers ample resources to mitigate bias and enhance reliability. Descriptive research is tailored to describe various aspects, such as user characteristics of a specific product and how usage patterns differ based on income, age, or other factors.

Advantages of Descriptive Research:

- Involves a considerable number of observations.
- Facilitates a more objective analysis.
- Allows for calculation of averages and percentages.

Data Collection Methods:

- Data collection methods are outlined in this section, involving primary and secondary sources.
- **Secondary Data Collection:** After establishing my objectives, I delved into gathering and researching secondary data. This involved a comprehensive review of materials found in reports, articles, newspapers, magazines, journals, and documents detailing the operations of HDFC Bank and ICICI Bank. Exploring secondary data provided insights into the issue at hand, offering clues and aiding in the formulation of fundamental research. This exploration painted a clearer picture of the operational methods of various service providers in Patiala city. Secondary information was widely sourced from journals, magazines, and newspapers like Business World, Business Today, Business India, Economic Times, and the official websites of HDFC Bank and ICICI Bank.
- **Collecting Primary Data:** Primary data objectives were developed in alignment with the research goals. These objectives served as guidance for research planning and solution formulation. Primary data for the research was acquired through a survey aimed at analyzing

purchasing behavior to gauge customer satisfaction levels and needs. A questionnaire was administered to a sample of 100 individuals. The data collection methods utilized were:

- **Telephone Interviews:** Utilized for quick and cost-effective data gathering, telephone interviews were preferred over in-person interviews. Structured questions were posed to customers regarding their satisfaction with HDFC Bank and ICICI Bank's home loan processes.
- **Questionnaires:** This popular data collection method, especially for extensive studies, involves obtaining specific information to better understand defined problems. The questionnaires were carefully designed to motivate respondents, ensuring clarity and ease of completion. The questionnaire included categories such as Simple Category Scale, Multiple Choice Single Response Scale, Likert Scale, and Rank Order Scale. The sequence of questions was logically arranged, incorporating both disguised and direct questions to gather relevant data effectively. Through several trial iterations, the questionnaire was refined for optimal survey implementation.

Survey Work Execution:

- Primary data was collected through survey work.
- A Consumer Survey was conducted using a set of questions.
- Each individual was contacted individually to complete the questionnaire, with participants randomly selected.
- Instrument Used: Questionnaire
- Survey Technique: Personal Interview
- Sampling Unit: Customer
- Sampling Extent: Ujjain Region
- Sampling Method: Random
- Research Method: Survey Method
- Sampling Size: 100

Findings:

1. The research indicates that the home loan application process is challenging for applicants.
2. The majority of respondents prefer fixed interest rates on home loans and prioritize quality service and minimum interest rates.
3. Participants expressed satisfaction with the organization or bank from which they obtained their home loan, gathering information from TV, the Internet, or through referrals.
4. Respondents believe HDFC Bank offers lower interest rates than ICICI, with ICICI known for easy accessibility.
5. Many participants mentioned that HDFC provides flexible repayment terms.
6. Participants consider various costs when choosing a home loan, noting that HDFC Bank has lower processing fees than ICICI.
7. Respondents perceive ICICI as offering better treatment than HDFC, emphasizing the importance of considering a bank's reputation. Some individuals associate reputations with HDFC, ICICI, or other banks, suggesting similar perceptions of all banking institutions.

1. Based on my research, the majority of individuals rated HDFC loan procedures as excellent.
2. In my study, respondents mentioned that the duration of a home loan impacts their choice.
3. Through my research, it was found that a home loan period ranging from 15 to 20 years is preferable.
4. The findings of my research indicate that most people highly rate HDFC loan procedures.
5. As per my research, a significant number of individuals consider HDFC loan procedures as good.

Suggestions:

- Ensure competitive interest rates compared to other financial institutions.
- Conduct thorough credit evaluations of clients.
- Introduce daily diminishing payment options.
- Provide essential information to clients regularly.
- Emphasize customer retention strategies.
- Ensure that customer-facing staff possess comprehensive knowledge of the housing finance industry.
- Expand into the national market.
- Offer schemes catering to the low-income segment.
- Reduce training costs in comparison to competitors (consultants' fees).
- Enhance incentive packages.
- Establish more branches in various cities.

Limitations:

- This research was time-constrained, focusing on a few specific aspects.
- The study was limited to a specific area; results may vary with a broader or different study location.
- Respondents' biases could have influenced their responses, leading to potential variations in the research outcomes.
- Human errors may have occurred during data analysis.
- The sample obtained through convenience sampling for customer surveys may not entirely represent the population characteristics. The survey was conducted among randomly selected individuals, including neighbors and friends, mostly from the educated middle class, reflecting the target demographic of Home Loan Institutions in Patiala.

Conclusions:

After conducting research, it is evident that HDFC Bank is favored over ICICI Bank for personal loans in the private sector. Despite the increasing number of private banks in our country, people generally prefer government banks for loans, especially older individuals. However, the preference among the younger population is shifting towards private banks due to their services and facilities. While government banks offer lower interest rates, their services are not as satisfactory. The presence of banks is crucial for the current generation, and private banks excel in this aspect compared to government banks. In conclusion, HDFC Bank holds the top position in the private lending sector.

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