

Assessment of Customer Satisfaction Regarding Housing Loans: With Special Reference to Punjab National Bank

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Abstract

The objective of the study is to assess the satisfaction level of PNB housing loan customers on the basis of several factors such as bank's legal formalities and procedures, bank's internal environment, likelihood to recommend others, bank's festival schemes and offers.

Methodology

This study is descriptive in nature and the sampling method which has been used in the study is Convenience sampling. The sample size includes 90 respondents which have taken housing loan from Punjab National Bank. Discriminant Analysis has been used to analyse the data collected through questionnaire with the help of statistical software SPSS.

Findings

In this study it has been found that the customers availing overdraft facility are more satisfied than the customers who have not availed this facility. Legal formalities and Procedure affect the customer satisfaction in more extent.

Practical Implications

Great efforts must be taken to make people aware about the schemes and offers launched by the bank.

Keywords

Housing Loan, Customer Satisfaction, Overdraft Facility.

I. Introduction

'House' is one of the basic human necessities next to food and clothing. It is not only a shelter but also an asset and wealth of human being. Housing finance/ loan means 'finance for meeting various needs relating to housing such as purchase of a flat/house, acquisition of a plot and construction of a house, extension of a house, repairs, renovation and up gradation of a house /flat with repayment spread over 15-20 years'.

Housing finance system in India: It has two components viz. formal and informal

Housing and related infrastructure is one of the principal sectors that can revitalize and sustain economic growth and development. Besides Housing has the maximum propensity to generate income and demand for materials, equipment and services; it is a chronic problem for countries like India. The rapid growth of population, increasing urbanization, break-up of joint families; low income level and inadequate maintenance of housing stock have created shortage of dwelling units not only in urban areas but also in rural areas in India. The matters relating to housing and urban development has been assigned to the State Government and urban local bodies by the constitution of India. The Ministry of Urban Development and Poverty alleviation is the apex authority of Government of India at national level to formulate policies, sponsor and support program. Reserve Bank of India also supports the housing sector through its subsidiary National Housing Bank.

Housing ranks third amongst 14 major industries in terms of total linkage effect in the Economy. It is the second largest employment generator in the country after Agriculture. As per the report of technical group on urban housing shortage in India (2012-17), the housing shortage in the urban areas is 18.78 million units while in the rural area it is 43.67 million units. In 2012, Housing loans as a percentage of GDP have remained at around 7 per cent. From the above data it can be said that there still required the need of houses in India.

According to 2013-14 report of NHB, of the total loan granted by public sector banks, 67% (48178 crore) was for housing sector. Thus banks are facing a tough competition. The Government of India is also supporting development in housing sector by taking initiative like "House for All by 2022", "Make in India", "Pradhan Mantri Jan DhanYojana."

The **Banking Companies Act of India** defines Bank as, "A bank is a financial institution which accepts the money from the public for the purpose of lending or investment repayable on demand or otherwise withdrawal by cheques, drafts or otherwise."

II. Literature Review

According to **Philip K. Kotler**, "Satisfaction is a person's feeling of pleasure or disappointment resulting from comparing a products perceived performance in relation to his or her expectations."

$$\text{Customer Satisfaction} = \text{Result} - \text{Expectation}$$

OR

$$\text{Customer satisfaction} = \text{Performance} - \text{Expectations}$$

J.D. Power (2008) [7] In his study made an attempt to measure the customer satisfaction with home equity lenders. The study finds that there are few key performance indicators for lenders that are critical to satisfying customers, these are;

- Approving applications and providing customers with an access to their fund quickly.
- Setting and meeting expectations during the application approval process
- Avoiding surprising the customer during the origination process
- Being versatile and flexible in the location of the closing.

Paul Jackson (2008)[11] In his study he made an attempt to analyse the overall customer satisfaction. The study pointed out that for consumers shopping for a home equity loan, closing cost and price including interest rates and fees are particularly important considerations.

Bandyopadhyay and Shah (2009) [10] stated the further fact after inspecting the 13,487 housing loan accounts (been sanctioned between 1993-2007) in India housing loan demand is mainly driven by the accessibility and credit availability, changing income level, increasing GDP growth rate, changing family patterns and age demographic effect. An increase in house price by 10%, ceteris paribus, results in 4.59% decrease in housing demand. A 10%

monthly income leads to increase in housing demand area by almost 6%.

Boyd W. et al. (2011) [2] have conducted a study to understand the major factors affecting the housing finance decisions of customers and have found out that reputation, interest charged on loans, interest charged on savings accounts are of more importance rather than other criteria like friendliness of employees, modern facilities and driven- in- services.

Machauer A. and Morgner S. (2012) [8] have stated that segmentation to be preferred by expected benefits and attitudes that could enhance a bank's ability to address the conflict between individual's services and cost saving standardization. Using cluster analysis, segments were formed based on combinations of customer rating for different attitudinal dimensions and benefits of bank services.

Devlin (2013) [5] investigation states that the importance of choice criteria according to the consumers and also analyses the difference in the importance of choice criteria with respect to number of demographic difference and relative factors. The study reflects that choosing a home loan institution on the basis of professional advice is the most frequently cited choice criteria, closely followed by interest rates. Difference in the importance of choice criteria with respect to demographic variables like gender, class household income, educational attainment, ethnicity and financial maturity are apparent.

Jasmindeep Kaur Brar and J.S. Pasricha (2014) [3] opined that from the immemorial shelter was considered as a basic need of a man. To a modern no other problem is as intriguing and mind boggling as the housing problem.

III. Study Design, Objective and Methodology

A. Objectives of the Study

The following are the objectives of the study:

1. To understand the procedure for sanctioning of credit more specifically for housing sector.
2. To find the satisfaction level of their customers towards housing loans provided by Punjab National Bank.

B. Research Type and Research Design

We are interested in assessing the satisfaction level of PNB housing loan customers on the basis of several factors such as bank's legal formalities and procedures, bank's internal environment, likelihood to recommend others, bank's festival schemes and offers. This study is descriptive in nature and the research design used in this study is cross sectional research design

C. Sampling Technique & Sample Size

This study has been conducted to analyse customer satisfaction level towards housing loan at PNB, circle office, Lucknow. The Convenience sampling has been used for data collection. The sample includes 90 respondents which have taken housing loan from Punjab National Bank. In 2014 PNB has launched overdraft facility so our main focus revolves around the customer who have availed this facility.

Table 1: Category Wise Sample Collection for the Study

Overdraft facility	No. of samples
Overdraft facility availed	71
Overdraft facility not availed	29

D. Data Sources

The study was based on Primary and Secondary data

The Primary Data was collected through direct interview method using structured questionnaires. Questionnaire has been designed with the help of previously validated study and personally administered. Five point Likert's scale is used for measurement. The Secondary data was collected from their Financial Year report and also from report of NHB.

E. Hypothesis

1. Null Hypothesis

There is no significant discrimination among the group who are availing the overdraft facility of PNB and who are not.

F. Statistical Test & Software

Discriminant Analysis has been used to analyse the data collected through questionnaire with the help of statistical software SPSS.

G. Limitations of the Study

The study was conducted in Lucknow districts of the state with limited number of sample units due to time and resource constraints. Therefore the findings may be interpreted cautiously with respect to time and space.

IV. Home Loans & PNB

A. Retail Loans

The Core Retail Advances comprising Housing, Vehicle, Education, Personal & Pensioner, Gold Mortgage & Reverse Mortgage Loan Schemes. The growth of Retail Loan portfolio continued to be the thrust area of the Bank in FY'15. In the figure given below: Aggregate Retail portfolio of Rs 38,864 crore as on 31.03.2014 increased to Rs 48,415 crore as on 31.03.2015 showing YoY growth of 24.60%.

B. Home Loans

Punjab National Bank is a commercial bank to provide housing loan facility. Due to increase in demand of the housing loan they have also opened a separate Subsidiary, named "PNB Housing Finance Ltd."

The Housing Loan segment registered YoY growth of 26% with an outstanding amount of 21,544 crore as on 31st March 2015.

C. Type of HOME Loans and schemes:

Following schemes are launched by PNB for housing loans:

- **Home Purchase Loan:** This is the basic loan for purchase of new house.
- **Home Improvement Loans:** These loans are given for implementing repairs and renovations in a home that has already been purchased
- **Home Construction Loans:** The loan is available for construction of a new house.
- **Home Extension Loans:** This is given for expanding or existing an existing home.
- **Overdraft facility:** For housing loan customers PNB has launched an Overdraft facility in which the person can take personal loan on less rate of interest. The maximum extent of loan is Rs.25lac.
- **Festival Bonanza offer:** This is a beneficial offer for customers as in this bank removes the charges of processing and documentation fee.

D. Eligibility Criteria for Home Loans

If the borrower is able to repay the amount any amount of loan can be granted to him/her, for this purpose pre-sanction appraisal is done which is explained further in this report.

1. Parameters Involved in Housing Loan

(i). Tenure

The tenure of the home loans refer to the time limit for a customer to repay the loan, generally, the maximum limit for the repayment is 25 years. The longer the tenure, more a customer pays in total interest, but monthly payment will be less.

(ii). Amount Paid by the Financer/Margin Requirement

The financer does not pay the entire amount of the loan, customers are requested to keep some margin. Most banks go in for 75% of the funding .E.g. An apartment costing Rs.10lac may get 75% of the funding by the bank i.e. the customer has to pay Rs.

(iii). Interest Rate

The most important parameter to factor in housing loan is the interest rate, it is the amount charged as a percentage of principle by the lender to a borrower. There are two kind of interest rates:

- Fixed rate of interest
- Floating rate of interest

Fixed interest rate remains fixed over 3 years and then changes according to the market conditions. Whereas Floating interest rate are affected by the rates in the market .The current interest rate on housing loan by PNB is Current Fixed rate of interest is 10.50%, Floating rate of interest is 10.25% and that on overdraft is 10.50%(overdraft)

(iv). Maximum Permissible Deduction

The bank cannot deduct amount more than prescribed limit, so if a borrower ask for certain amount for loan and after deduction of maximum permissible amount the person is not able to repay within 35 years of time span then he is denied for this loan.

Table 2: Maximum Permissible Deduction as Per Net Monthly Salary

Net Monthly salary	Max. Permissible deduction of NMS
Up to Rs. 30000	40%
>Rs.30000 to Rs. 60000	50%
>Rs. 60000 to Rs. 100000	60%
>Rs.100000	70%

(v). Miscellaneous Charges

All banks charge certain amount of processing fee and document charges which cannot be ignored.

- **Processing Fee:** Bank charge certain amount of fee for processing of the loan.
- **Documentation charges:** Amount charged by the banks to borrower for checking and preparation of documents required for sanctioning the loan is termed as documentation charges.

The Processing fee and Documentation charges imposed by PNB are given in below table:

Table 3: Processing Fee and Document Charges Applied by the Bank

Processing fee	Up to Rs.300 lac.	0.50% of loan amount, Maximum Rs. 200000/-
	Above 300 lac.	Rs. 500000/-
Documentation Charges	IIEJR Irrespective of amount	RJW Rs. 1350/-

(a). Prepayment Fee

Charges are levied on floating rate of interest on Housing Loans while in case of fixed rate of interest no prepayment charges are to be levied in when the loans are prepaid by the borrowers from their own sources.

E. The Loan Procedure followed by PNB

The process involves the disbursement of home loan, It involves following steps:

1. Home loan application form is first submitted by the customer covering all the details
2. Checklist of requirement is requested for from the customers and all documents are requested to be submitted ,they are then verified whether details are details are failed in correctly and whether all the documents are submitted.
3. Pre sanction appraisal is done by the bank in which type of land (whether agriculture or residential), legal aspect in case of builder and NEC (non encumbrance certificate) etc. is checked.

F. Housing Finance Schemes of PNB

The Housing Loan segment registered YoY growth of 26% with an outstanding amount of ` 21,544 crore as on 31st March 2015. In 2014-15 the total housing loan issued was Rs. 8650 lakh which amount 17.866% of the total loans

The Bank also implemented various Government of India schemes such as Credit Guarantee Fund Scheme for Low Income Housing (CRGFSLIH), Housing Interest Subsidy Scheme under the name of "Rajiv Rin Yojana" launched by Ministry of Housing & Poverty Alleviation and Education Loans interest Subsidy under Central Scheme for Interest Subsidy (CSIS), New CSIS and 'Padho Pradesh for Minority Communities'.

Following are the Housing finance schemes of PNB:

- (A) Direct finance
- (B) Indirect finance

G. PNB Score

This is created to evaluate risk in retail segment, except for

1. PNB Baghban scheme
2. Loan against Gold Jewellery and Gold Coins.
3. This score is applicable for loans up to Rs.50.00lacs, however for housing loans, education loans and vehicle loans this is applicable irrespective of amount.

The cut off score is decided by RAD head office from time to time.

(i) Preventive Monitoring System

This is used to track the health and conduct of borrower account. This is applicable to all borrower accounts having sanction limit above Rs.1crore. This ranking system is used to check the early warning signals so that an account can be prevented to become an NPA. The software has been named "PNB Rakshak". The PMS reports are generated on quarterly basis. It is a 10-point scale (Rank

1 to Rank 10). Higher the PMS Index Score or PMS Rank, poor is the health of the account.

PMS Rank is given in the following table:

Sr. No.	PNB SCORE	BORROWER'S RATING	RISK SIGNIFICANCE
(1)	Above 80.00	PNB-A1	Minimum Risk
(2)	Above 70.00 up to 80.00	PNB-A2	Marginal Risk
(3)	Above 64.00 up to 70.00	PNB-A3	Modest Risk
(4)	Above 58.00 up to 64.00	PNB-A4	Lower Risk
(5)	Above 52.00 up to 58.00	PNB-B1	Average Risk
(6)	Above 46.00 up to 52.00	PNB-B2	Marginally Acceptable Risk
(7)	Above 35.00 up to 40.00	PNB-B3	Cautiously Acceptable Risk
(8)	Above 35.00 up to 40.00	PNB-C1	High Risk
(9)	Above 25.00 up to 35.00	PNB- C2	Very High Risk
(10)	25.00 and below	PNB-C3	Exceptionally High Risk

PMS Index Score(Annual)	PMS Rank	Classification
0-1000	1	Healthy
1001-2000	2	Healthy
2001-3000	3	Early Warning
3001-4000	4	Early Warning
4001-5000	5	Early Warning
5001-8000	6,7,8	Warning
8001-10000	9	Likely NPA or NPA
Above 10000	10	Likely NPA or NPA

V. Problem Statement and Analysis of the Questionnaire

A. Issues in Housing Loan in PNB, Circle Office Lucknow

Though the total housing sector loan of PNB has shown a growth of 26.04%, but in PNB Circle office, Lucknow, there is a decrease in this sector. In spite of launch of the overdraft facility they could not get as many new customers as the previous year (2013-14). In 2013-14 the total Housing Loan issued was Rs. 9232.43 lac with total account no.53, whereas in 2014-15 the loan issued was Rs.7912 lac. With total new accounts of 350 and Overdraft issued was Rs. 738 lac with total accounts 140.

In this study we are trying to find out the satisfaction level of customers, on the various factors affecting the same, So that the level of satisfaction can be improved which in turn will increase the clientele.

B. Analysis & Interpretation

Discriminant analysis has been performed on the items to which respondents have responded. Respondents were asked to respond on the items measuring bank's legal formalities and procedures, bank's internal environment, likelihood to recommend others, bank's festival schemes and offers.

- We have selected the 69 cases for analysis and 21 cases for validation. On the basis of these 21 cases we want to interpret that the customers who are availing the overdraft facility are generally satisfied with the bank services. The following table depicts the data very clearly:

Unweighted Cases		N	Percent
Valid		69	76.7
Excluded	Missing or out-of-range group codes	0	0
	At least one missing discriminating variable	0	0
	Both missing or out-of-range group codes and at least one missing discriminating variable	0	0
	Unselected	21	23.3
	Total	21	23.3
Total		90	100

- The group statistics table given below reveals that for all four predictors, larger group means are associated with larger group standard deviations. (The means and standard deviations for the group who are availing the overdraft facility are considerably higher)

GROUP STATISTICS:			
Overdraft		Mean	Std. Deviation
overdraft facility availed	Legal formalities procedures	3.7389	0.38787
	Internal environment	3.4889	0.34157
	Likelihood to recommend	3.9556	0.70568
	Schemes offers	3.8444	0.56228
overdraft facility not availed	Legal formalities procedures	3.2708	0.41649
	Internal environment	3.2847	0.35604
	Likelihood to recommend	3.4167	0.97431
	Schemes offers	3.375	0.49454
Total	Legal formalities procedures	3.5761	0.45436
	Internal environment	3.4179	0.35772
	Likelihood to recommend	3.7681	0.8427
	Schemes offers	3.6812	0.5814

- Table given below show the wilk's lamda value which measure the variables potential in discriminating the group (smaller value indicates the variable is better at discriminating between groups). The table reveals that legal formalities and procedure is best followed by festive schemes/offers, likelihood to recommend others, internal environment.

Tests of Equality of Group Means	
	Wilks' Lambda
Legal formalities procedures	0.756
internal environment	0.925
Likelihood to recommend	0.906
Schemes offers	0.85

- Table below shows the correlation among all the four parameters. This shows that likelihood to recommend bank is more dependent on internal environment and then on legal formalities.

Pooled Within-Groups Matrices					
		Legal formalities procedures	Internal environment	Likelihood to recommend	Schemes offers
Correlation	Legal formalities procedures	1	0.097	0.3	0
	Internal environment	0	1	0.4	0
	Likelihood to recommend	0	0.424	1	0
	Schemes offers	0	0.162	0	1

- The table given below show that we have correctly classified 72.5% of selected group and 90.5% of unselected group:

Classification Results						
			overdraft	Predicted Group Membership		Total
				overdraft facility availed	overdraft facility not availed	
Cases Selected	Original	Count	overdraft facility availed	33	12	45
			overdraft facility not availed	7	17	24
		%	overdraft facility availed	73.3	26.7	100
			overdraft facility not availed	29.2	70.8	100
	Cross-validated	Count	overdraft facility availed	33	12	45
			overdraft facility not availed	8	16	24
		%	overdraft facility availed	73.3	26.7	100
			overdraft facility not availed	33.3	66.7	100
Cases Not Selected	Original	Count	overdraft facility availed	14	1	15
			overdraft facility not availed	1	5	6
		%	overdraft facility availed	93.3	6.7	100
			overdraft facility not availed	16.7	83.3	100

The result shows that the customers who are availing the overdraft facility are generally satisfied from PNB services. It is also found that the banks legal formalities and procedures, banks internal environment, several offers and schemes offered by PNB and likelihood to recommend others to avail the PNB services are significant explaining the satisfaction level of customers of PNB housing loan. In order to maximize the customer's satisfaction PNB should give more emphasize on these factors which in turn develop the customer's loyalty and also minimizing the risk of recovering housing loans.

VII. Conclusion

In this study, we have included the step by step procedure involved in granting the housing loans. Initially pre-sanction appraisal requires preparation of credit reports which helps the bank in studying the borrower's character, capacity and capital (3c's). Internal and external credit ratings are taken with respect to the account under study. Previous repayment behaviour is checked for character through reports and credit ratings from while future cash flow projections are checked for the repayment capacity of

the borrower. Borrower's habits on following up the rules and regulations are checked and if some irregularities are found it are reported accordingly. Pre-release audit is done to deal with the above mentioned requirement. To understand the nature of the securities entrusted with the bank Legal audit reports are studied. The next thing done after the follow-up is the documentation of necessary formats and document that is essential to be issued to the borrower on sanction of enhanced/renewed credit facility. Drawing limits of various accounts are calculated. As part of post sanction monitoring book of debts and stocks are audited to check the adequate security, nature and quantity. Some activities are part of monitoring which are done periodically such as unit inspection with the bank officials to verify the stock statements. Finally a study is done to check the NPA's and understand the nature of the non-remunerative borrowers and suggest possible measures to overcome the slippage of an account into an NPA. This study at Punjab National Bank was an extremely informative one. It gave us an excellent opportunity to learn, as well as contribute to the organization. Their housing loan section holds second position in retail loan category after credit given to SME. From,

the customer feedback we have taken, this can be generalized that the people who have taken overdraft facility are more satisfied. Legal formalities and Procedure affect the customer satisfaction in more extent. Great efforts must be taken to make people aware about the schemes and offers launched by the bank.

Punjab National Bank's practices have been very efficient and each and every detail has been taken care off by them. They have their own credit rating system and follow the BASEL-II. They have been innovative with their products and for a banking system to grow and not just survive needs continuous evolution and it cannot be in a day or a year, it only happens gradually. "Slow and steady wins the race".

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