



A Study On Borrower Perceptions And Challenges In Housing Loan Processing

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Abstract

The housing finance sector in India has emerged as a critical driver of economic development, fuelled by rapid urbanization, rising disposable incomes, and government initiatives such as the Pradhan Mantri Awas Yojana (PMAY). Despite housing loans constituting nearly 50% of the retail credit portfolio of banks, the borrower experience regarding the loan availment process remains inconsistent. This study scrutinizes the disparity between the growing availability of credit and the procedural complexities borrowers face, ranging from eligibility assessment to final disbursement. Utilizing primary data collected from 100-120 respondents in urban and semi-urban areas, this research evaluates borrower awareness regarding documentation and eligibility norms. The study further investigates the operational dichotomy between Public Sector Banks (PSBs), which often rely on manual verification, and Private Sector Banks/HFCs that leverage digital tools for faster turnaround. The findings identify critical challenges such as hidden charges, documentation hurdles, and delayed processing as major impediments to borrower satisfaction. The research concludes that while regulatory measures like the Key Fact Statement have been introduced, significant gaps in financial literacy and transparency persist, necessitating urgent process rationalization.

Keywords: Housing Finance, Borrower Perception, Loan Processing, Financial Literacy, Home Loans, Borrower Satisfaction.

Introduction

Housing is recognized not merely as a basic human need but as a fundamental right that plays a pivotal role in the social and economic development of the nation. Over the last few decades, the Indian housing sector has transitioned from a government-led model to a market-driven ecosystem, encouraging substantial participation from commercial banks and Housing Finance Companies (HFCs). The National Housing Bank (NHB) is the regulator of housing loans along with the Reserve Bank of India (RBI) and other regulators such as the Central Government (CG). Consequently, housing loans have become one of the largest and fastest-growing components of retail lending in India.

However, the journey of availing a housing loan is often perceived by borrowers as complex, time-consuming, and opaque. The process spans multiple critical stages—including application, rigorous eligibility assessment, documentation verification, sanction, and final disbursement—each presenting potential bottlenecks for the applicant. The National Housing Bank (NHB) and the Reserve Bank of India (RBI) have introduced various borrower protection measures, such as the Fair Practices Code and the mandatory disclosure of a Key Fact Statement (2022). Despite these regulatory interventions,

borrowers frequently encounter practical difficulties such as lengthy turnaround times, lack of clarity on interest rate structures (fixed vs. floating), and hidden processing charges.

Furthermore, a distinct operational gap exists within the industry. Public sector banks generally follow traditional, multi-layered manual approval processes which ensure thorough verification but often result in delays. In contrast, private sector banks and HFCs have increasingly adopted digital onboarding and automated credit assessments to enhance speed, though often at a higher cost to the borrower. This research aims to analyse these dimensions by evaluating the extent of borrower awareness and the specific challenges they face, ultimately assessing how processing efficiency directly correlates with borrower satisfaction.

Objectives of the Study

1. To see how the speed and ease of the loan process affect borrower satisfaction.
2. To compare Public Sector Banks and Private Sector Banks/HFCs to see which one is faster and provides better service.
3. To find out if a borrower's knowledge about loan rules helps them face fewer problems.

Hypothesis

Hypothesis 1

- **H0** : There is no relationship between how fast/easy the process is and how happy the borrower is.
- **H1** : If the loan process is faster and easier, the borrower will be significantly happier.

Hypothesis 2

- **H0** : There is no real difference in speed or service quality between Public Sector Banks and Private Banks/HFCs.
- **H2** : Private Banks and HFCs are significantly faster and provide better service than Public Sector Banks.

Scope of the Study

This research focuses on the perception of borrowers in urban and semi-urban areas of India. It covers the entire loan lifecycle, including application, sanction, and disbursement. The study includes borrowers from Public Sector Banks (PSBs), Private Sector Banks, and Housing Finance Companies (HFCs), Non-Banking Finance Companies (NBFC) to provide a comparative perspective on service quality and efficiency.

Research Methodology

- **Source of Data:**
 - **Primary Data:** Collected through a structured questionnaire via Google Forms.
 - **Secondary Data:** RBI reports, NHB publications, and banking journals.

- **Sample Unit:** Borrowers who have applied for housing loans (Salaried, Self-employed, Professionals).
- **Sample Size:** 108 Respondents.
- **Sampling Technique:** Purposive and Convenience sampling.

Data Interpretation and Analysis

Demography

- **Age :** The survey reveals that the largest group of respondents falls within the 41-60 age bracket (41.1%), followed by 21-40 (33.7%), Below 20 (14.7%), Above 60 (8.4%), and Below 25 (2.1%).

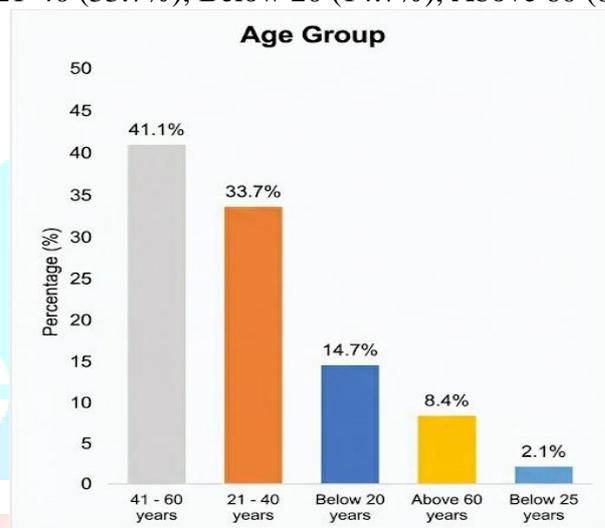


Fig. 1.01

- **Gender :** The gender distribution of the respondents comprises Females (49.5%), Males (25.8%), and those who Preferred not to say (24.7%).

Gender
97 responses

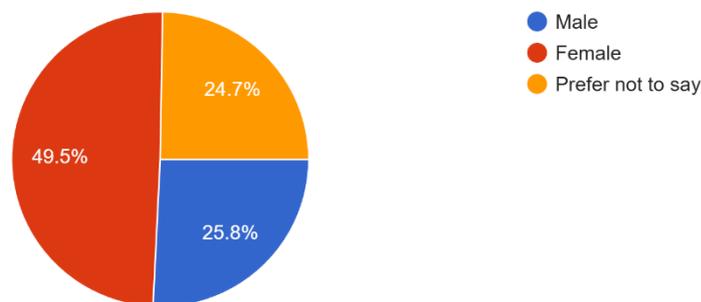


Fig. 1.02

- Educational Qualification :** Educational Qualification In terms of educational qualification, the sample consists of postgraduates (48.5%), graduates (33%), professionals (32%), and students (1%).

Educational Qualification

103 responses

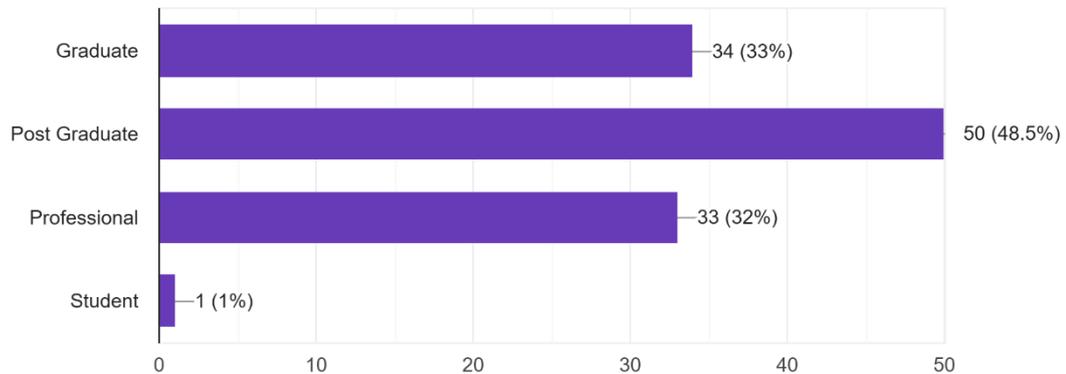


Fig. 1.03

- Occupation Type :** The occupational profile of the respondents shows most self-employed individuals (45.2%), followed by professionals (40.9%), while salaried employees and those in the 'other' category each account for 6.5%, and students make up 1.1%.

Occupation Type

93 responses

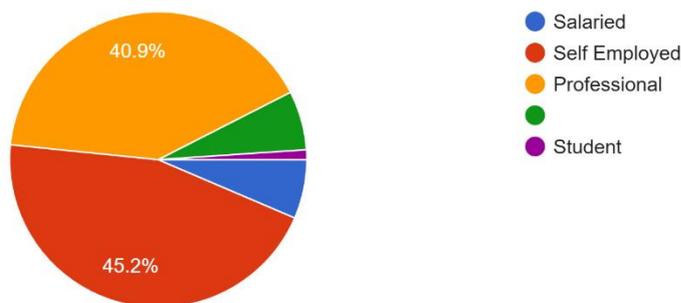


Fig. 1.04

- Monthly Household Income :** The data indicates that 45.5% of respondents have a monthly household income between ₹1 Lakh and ₹1.5 Lakhs, followed by those earning above ₹1.5 Lakhs (24.2%), while 23.2% fall in the ₹50,000 to ₹1 Lakh bracket, and 6.1% earn below ₹50,000.

Monthly Household Income

100 responses

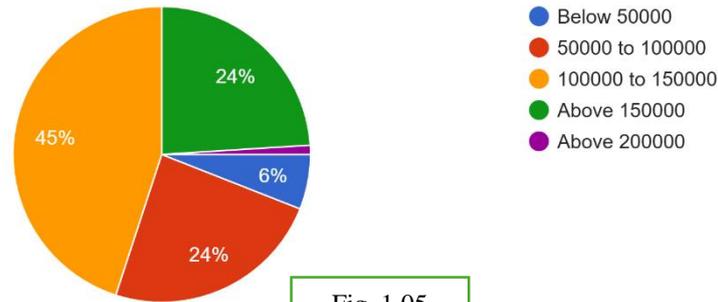


Fig. 1.05

- Purpose of Housing Loan :** The distribution of loan purposes shows that the highest percentage of respondents availed loans for construction (42.9%), followed by renovation (31.4%), balance transfer (15.2%), and purchase of a new house/flat (10.5%).

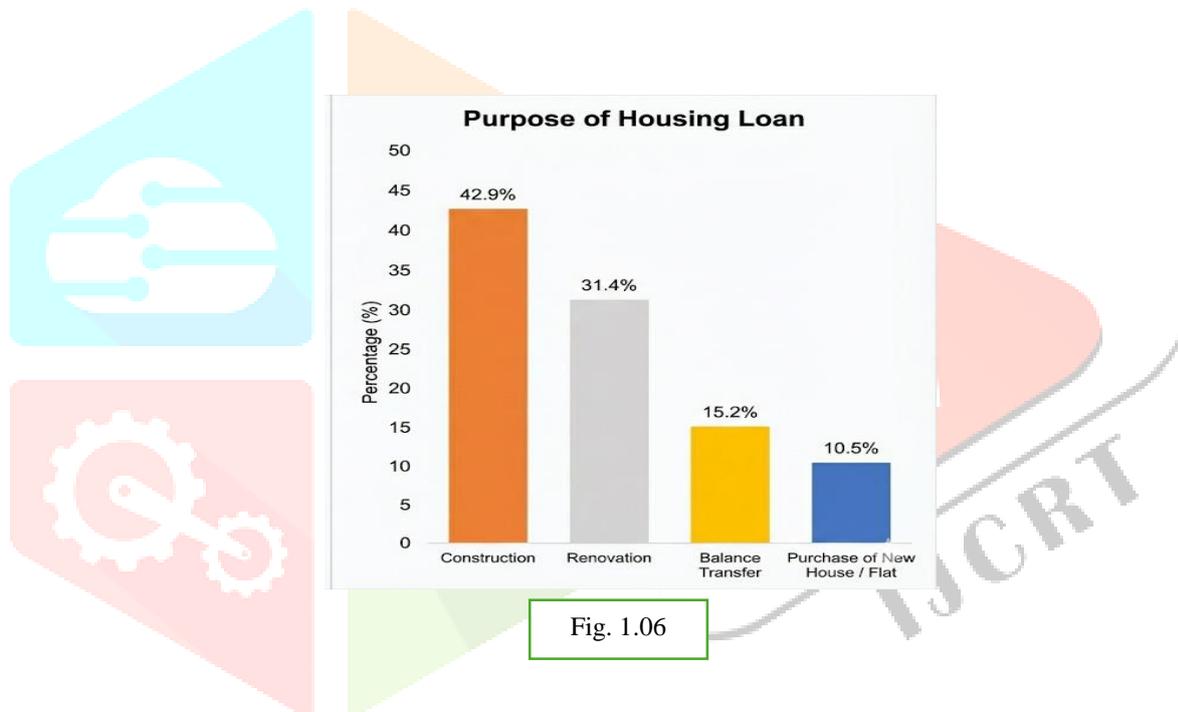


Fig. 1.06

- Loan Amount Availed :** The survey data reveals that the largest segment of borrowers (45%) availed loans between ₹1 Crore and ₹2 Crores, followed by those in the ₹50 Lakhs to ₹1 Crore range (31%), while 12% borrowed above ₹2 Crores, 9% took loans below ₹50 Lakhs, and a minority of 2% availed loans below ₹20 Lakhs.

Loan Amount Availed

100 responses

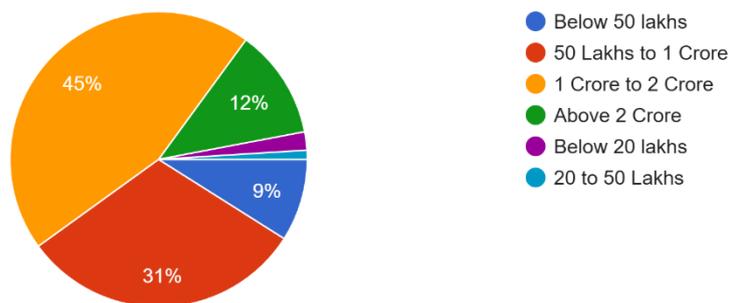


Fig. 1.07

- Loan Tenure:** The survey results indicate that 50% of borrowers opted for a loan tenure of 5 to 10 years, followed by 27.5% with a tenure below 5 years, and 22.5% with a tenure above 10 years.

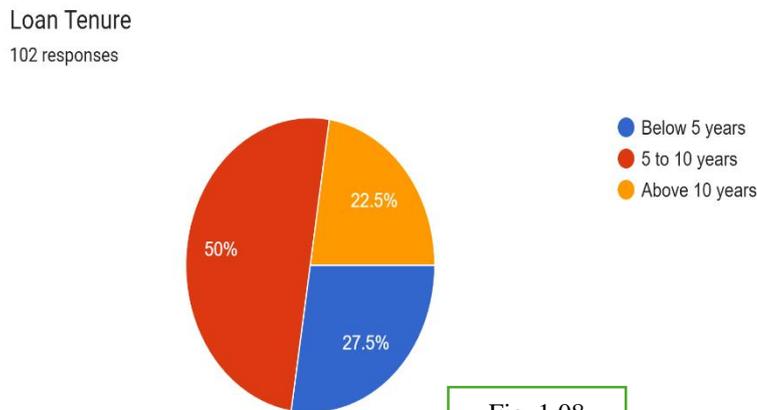


Fig. 1.08

- Source of Information :** Source of Information The data shows that 37.8% of respondents obtained information about the loan process through online websites, followed by friends and family (23.5%), agents or brokers (18.4%), bank staff (13.3%), and other sources (7.1%).

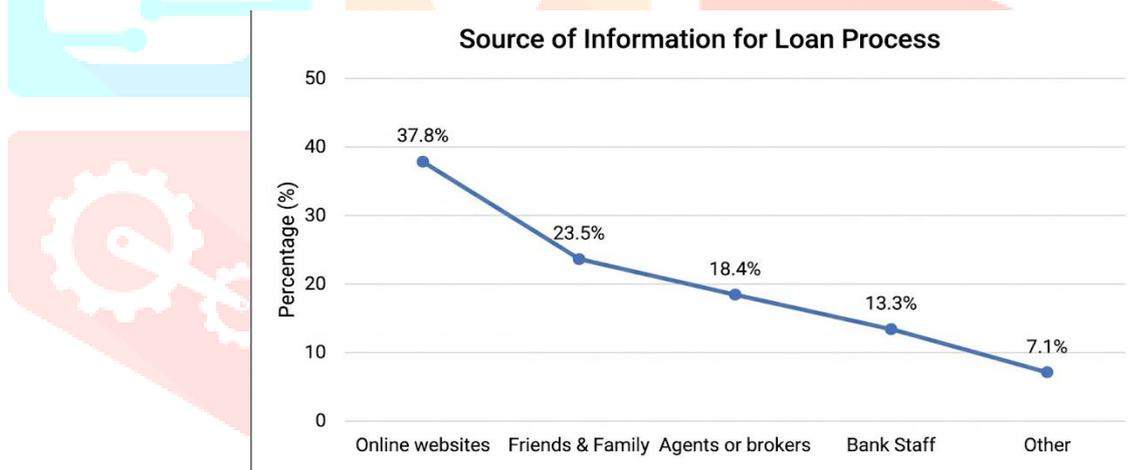


Fig. 1.09

- Awareness of Documentation :** The survey results indicate that a majority of 57.6% of respondents were not aware of the documentation required for the loan application, while 22.2% were fully aware and 20.2% were partially aware.

Were you aware of the documentation required for the loan application?

99 responses

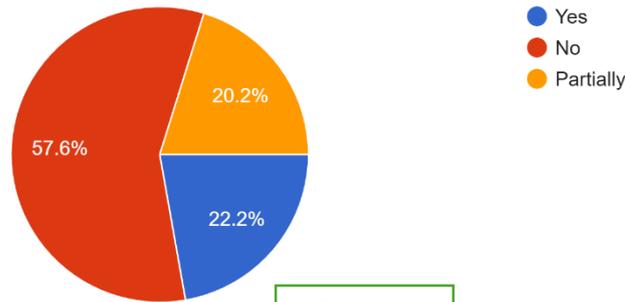


Fig. 1.10

- Challenges Faced** :The data reveals that 40.4% of respondents faced significant challenges (very much) during the loan process, followed by 32.3% who reported no challenges, while 18.2% answered yes, and 9.1% indicated not much difficulty.

Did you face any challenges during the loan process

99 responses

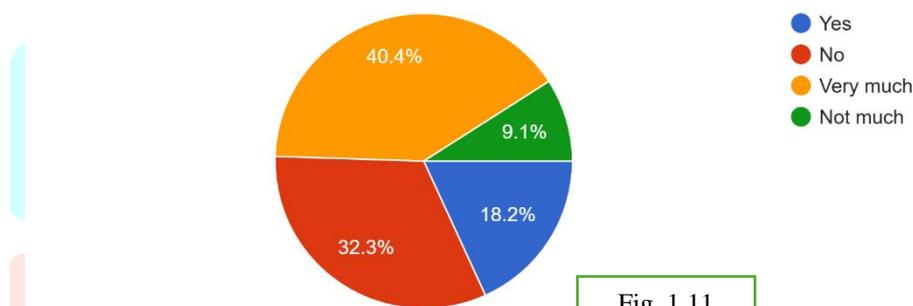


Fig. 1.11

- Specific Challenges** : Among the specific challenges faced, the lack of clear communication was cited by 59.4% of respondents, followed by difficulty in documentation (43.4%), hidden or additional charges (42.5%), multiple follow-ups required (38.7%), high rate of interest charge (37.7%), delay in processing or disbursement (31.1%), and increasing control and collateral (29.2%).

If yes please specify

106 responses

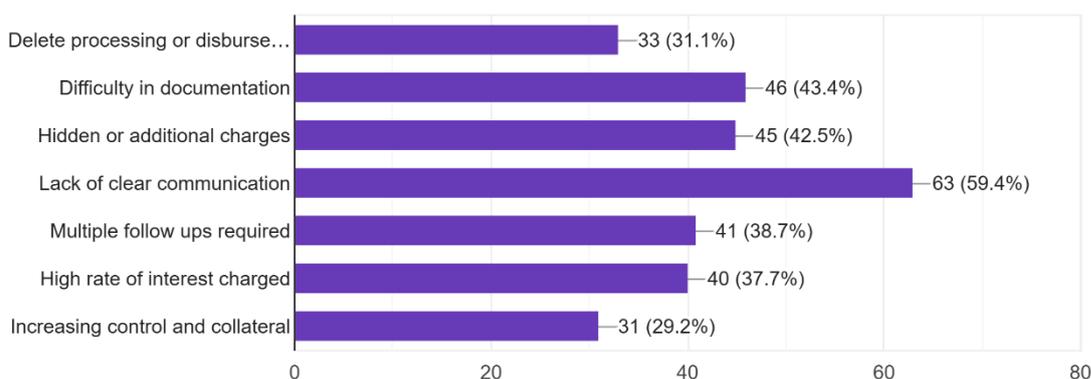


Fig. 1.12

- **Effect of Challenges on Experience :** The survey indicates that the majority of respondents experienced moderate stress (59.2%) due to loan processing challenges, while 29.6% faced major stress or financial planning issues, and 11.2% reported only minor inconvenience.

How did your challenge is affective experience

98 responses

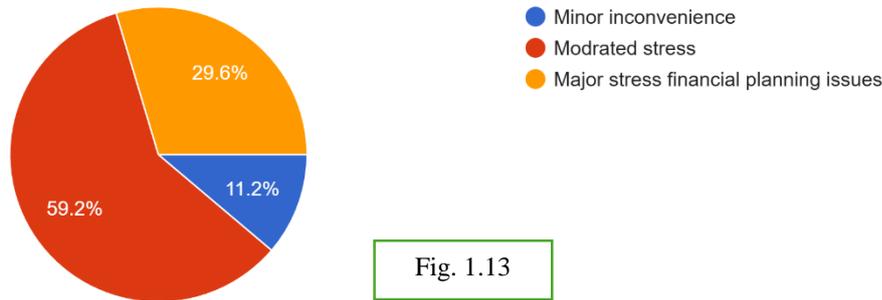


Fig. 1.13

- **Recommendation to Others :** The survey data shows that 47.4% of respondents would recommend their bank or HFC to others, while 38.1% would not, and 14.4% were unsure.

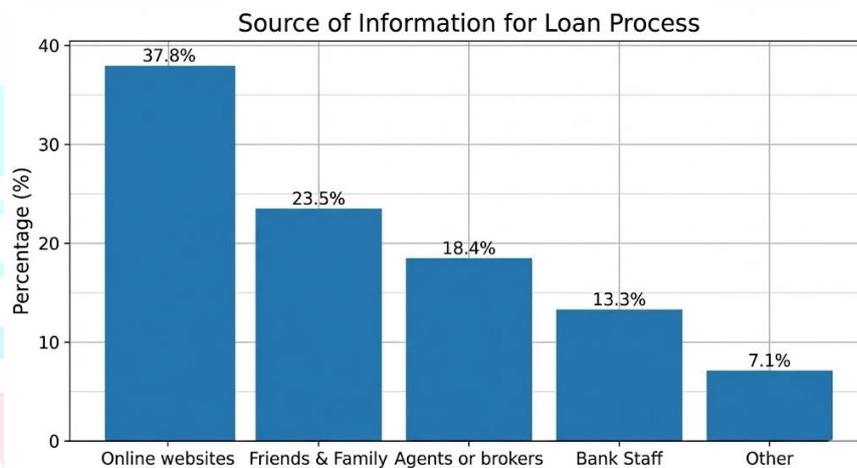


Fig. 1.14

Literature Review

A comprehensive review of existing literature is essential to understand the evolution of the housing finance sector and the changing dynamics of borrower expectations. Housing finance has transformed from a basic necessity-driven market to a complex service industry where customer satisfaction and processing efficiency are paramount. Previous research highlights that while financial inclusion has improved, borrowers often face significant hurdles related to documentation, hidden costs, and procedural delays. The following studies provide critical insights into the relationship between institutional efficiency and borrower perception, laying the foundation for this research.

1. Deepak Singh (2001) – Consumer Behaviour and Banking Retail Products In his analysis of retail banking products, Singh emphasized that the future of housing finance institutions depends heavily on borrower attitudes. The study highlighted that consumers are increasingly service-sensitive, and their satisfaction with the "delivery" of the loan product is just as important as the product itself. He suggested that banks must focus on minimizing the gap between customer expectations and actual service delivery to remain competitive.

2. Bai Thara (2002) – Formal Housing Financing System- Karnataka This study examined the challenges borrowers face with the formal banking sector. Thara observed that a large section of low-income and self-employed households prefers informal sources of finance despite higher interest rates. The primary reasons identified were the stringent rules, rigid documentation requirements, and lack

of flexibility in the formal banking sector. This underscores the need for banks to simplify procedures to improve accessibility for non-salaried borrowers.

3. Samkutty George (2002) – Implications and Impact of Housing Finance Schemes George conducted a comparative analysis of housing finance schemes across public, private, and cooperative sectors. His research focused on measuring the level of borrower awareness and the satisfaction derived by beneficiaries. The findings revealed that while schemes are available, accessibility remains an issue due to complex structures. He recommended developing a more flexible, borrower-centric model that can be redesigned to meet the specific requirements of different societal sections.

4. Hasanbanu S. & Jeya Shree U. (2006) – Comparative Analysis of Housing Loans by Public and Private Sector Banks This study provided a direct comparison of borrower perceptions between public and private sector banks. The authors found that while public sector banks play a vital role in rural housing promotion due to trust and lower interest rates, they lag in service innovation. The study concluded that private banks are often preferred for their customized services and faster processing, suggesting that public banks need to adopt more dynamic and innovative housing loan schemes to retain customers.

Findings of the Study

1. **Awareness Gap:** A substantial number of borrowers rely heavily on agents or bank staff because they lack comprehensive knowledge about regulatory guidelines and eligibility criteria.
2. **Impact of Efficiency:** There is a direct correlation between processing speed and borrower satisfaction. Delays in sanctioning and disbursement are the primary causes of dissatisfaction.
3. **Institutional Differences:** Private sector lenders are perceived as faster and more customer-centric due to digital adoption, whereas public sector lenders are viewed as slower but more transparent with interest rates.
4. **Documentation Stress:** The documentation stage is universally perceived as the most stressful part of the process, particularly for first-time homebuyers

Conclusion

The study concludes that while the availability of housing finance has improved, the process of accessing it remains a challenge for many. Borrower satisfaction is significantly dependent on the efficiency of loan processing and the transparency of communication. There is a clear divide in perception, with private players favoured for speed and public players for trust. To enhance the housing finance ecosystem, it is essential to bridge the financial literacy gap among borrowers and for institutions to adopt standardized, digital-first processing mechanisms to minimize delays and documentation hassles.

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