

Chapter – 3

Home Loan

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Chapter – 3

Home Loan

3.1 Introduction

Home is an integral part of an individual, who since his / her birth and childhood, dreams to have living space of his / her own. Once in a lifetime investment requires loan to accomplish it and that is how the home loan comes into scheme of things. Buying a home is dream for everyone. Owing to the rising price of properties, it has almost become impossible for an average earning person to buy a home on a lump sum payment. Therefore, the concept of home loan has come in existence. There are plethora of housing finance companies and equal number of banks that offer home loans. The task of selecting one company and one offer for home loan amidst the thousands available options have become a very complex task owing to the burgeoning housing finance market in the country. Apart from this, there are intricate business jargons and technicalities that make this task more difficult. In this study, I propose to give the basic information of home loan technicalities, so that when a person applies for the home loan, he / she can understand the basics and help themselves remain away from the duping elements in the market.

3.1.1 Importance of Home Loan

- The need for home loans arises not because property prices are heading upwards all the time but because home loans make great sense from a long-term savings perspective. Not only are home loans a handy tool for the common man to own a roof over his head but they also help save money in the long run.
- With skyrocketing real estate prices, people are increasingly opting for housing loans to acquire their dream home. Interest rates are coming

down all the time and the banks and the housing finance companies are literally falling over each other to lure the prospective home-seekers.

- Notwithstanding the tax breaks and generous lending rates, a lot of people still cannot arrange resources for the down-payment, which comes out to be at least 15 per cent of the property value. Taking cognizance of the situation, Banks are coming up with home loan products called 'zero down payment loans' wherein 100 per cent funding is provided for select properties. These lucrative offers are other major reasons for why people are opting for loans.
- Even if one can afford to buy a home with one's own money, home loans should be availed because they act as good savings instrument. According to industry estimates, the long term average return in investing in a home is about 20% p.a. while the average cost of borrowing funds in the market today is about 7% p.a. (considering all tax breaks).
- For salaried employees, housing loans are the best way to avail of tax benefits. Many people simply go for the home loans in order to avail these benefits. Interest payments up to ₹ 1.5 lakh on housing loans are deductible from the taxable income and there is a further deduction of taxable income maximum up to ₹ 1 lakh against repayment of principal portion per annum. In case a person stays in a rented house, the cost of the loan will be nearly zero per cent since he will be saving a decent amount on rent.

All the banks offer many types of loan and advances to the customers like retail loan, term loan, working capital finance, overdraft, export import finance and project finance. Since this study is based on home loan and home loan is part of retail loan various types of retail loan are explained in 3.1.2.

3.1.2 Types of Retail Loans

Bank offers a wide range of retail loans to meet customer diverse needs. Whether the need is for a new house, child's education, purchase of a new car or home appliances,

banks' unique and need specific loans enable customer to convert customer dreams to realities.

Table 3.1 Types of Retail Loans

1. Home Loan	2. Home Loans to NRIs / PIOs
3. Interest Subsidy Scheme for Housing the Urban Poor (ISHUP)	4. Loan Against Future Rent Receivables
5. Mortgage Loan	6. Education Loan
7. Car Loan	8. Two Wheeler Loan
9. Loan to Professionals	10. Traders Loan
11. Personal Loan	12. Loan for financing Individuals for subscription to Public Issues / IPO
13. Reverse Mortgage Loan	

(1) Home Loan

Home Loan is available for Purchase of new / old dwelling unit, Construction of house, Purchase of plot of land for construction of a house. Customers repaying a loan already taken from other Housing Finance Company / Bank. Repayment period up to 25 years (floating rate option). Also for Repairs / Renovations / Improvement / Extension of Home and for Furniture, Fittings & Fixtures.

(2) Home Loans to NRIs / PIOs

Banks have also designed housing loan facility for NRI / PIO. Customer opt for Flexi Rate plan to hedge the interest rate risk by breaking the loan into two separate accounts, Free property insurance and personal accident insurance. Borrower does not pay pre payment / foreclosure charges for part as well as full prepayment (when repaid from own sources by the borrower).

(3) Interest Subsidy Scheme For Housing The Urban Poor (ISHUP)

“Affordable Housing for all” is an important policy agenda of Government of India and accordingly the Ministry of Housing and Urban Poverty Alleviation (MH &

UPA) has designed an Interest Subsidy Scheme as an additional instrument for addressing the housing needs of Economic Weaker Section (EWS) and Low Income Group (LIG) segment in urban areas. The scheme envisages the provision of interest subsidy to EWS and LIG segments to enable them to buy or construct houses.

(4) Loan Against Future Rent Receivables

Loan against future rent receivables has been developed considering the growth potential in the real estate in various metros and urban areas, where many commercial properties / shopping malls are being developed and the owners approach banks for loans against securitization of future rent receivables from such properties. Loan covers the target groups, viz. owners of immovable properties and the minimum and maximum loan limits are based on actual rent income received during the particular year.

(5) Mortgage Loan

Bank gives loan to the customer an innovative combination of a loan and overdraft facility with flexible repayment options against the security of customer's immovable property. Benefits of this loan are ideal use of idle property - generate additional income from idle property, customer withdraw money as per their need and save on interest cost, deposit surplus money / regular income / salary and save interest, flexibility to withdraw money deposited earlier. Banks also provide either as overdraft or demand loan as per the customer's need.

(6) Education Loan

Education is the most important investment one makes in life. Higher studies and specialization in certain fields call for additional financial support from time to time. Whether customers are planning for their child for school education (nursery to standard XII) pursuing a graduate or post-graduate degree, the bank gives Education Loans, to fulfill customers' ambitions and goals.

(7) Car Loan

In today's fast paced world, a vehicle is a necessity. Yet other expenses and plans in life take priority and the dream of owning a car takes a back seat. Whether as a comfortable and dependable means of transport or as a status symbol in society, it is

believed that customer deserve ownership of a vehicle. Benefits of this loan are - available up to ` 15 Lakhs for any car make/model (Inclusive of Gas-Kit), Loans can be availed for new and second-hand vehicles (Not more than 3 years old). Repayment period of loan is as long as 7 years.

(8) Two Wheeler Loan

For those individuals who prefer to travel more conservatively or to get to their destinations faster, a two-wheeler is as much a boon as it is to a car owner. With newer models coming out each year, the options available to the customer are both attractive as well as convenient. All resident Indians, salaried people, professionals, self-employed, businessmen and farmers can apply for this loan.

(9) Loan to Professional

Banks give loan to professional persons like doctor, engineer, CA. This loan is designed specially to cater to the financial needs of the professional. The loan can be availed as a demand / term loan or overdraft as per customer's preference. The loan is available for Purchase of office equipments viz. computers, fax, air-conditioners and furniture, etc. Also, loan is available for Expansion / renovation / modernization of existing premises.

(10) Traders Loan

Traders Loan facility enables individuals, proprietorships, bodies such as partnership firms and co-operative societies to avail of working capital or undertake development of shop by way of loan / overdraft. Dealers in gold / silver jewellery are get benefit of this loan. The loan is provided against the security of tangible collateral Securities in the form of mortgage of land (not agricultural land) and building. Also National Savings Certificates, Government Bonds, Bank's Term Deposits, Assignment of Life Insurance Policies, standing in the name of the borrower/proprietor/partner/director.

(11) Personal Loan

There is wedding in the family. May be its high time for the person to surprise the spouse with a priceless gift. The people simply need to pamper his family with an

extended vacation. These are the times when a person may need a helping hand. Bank offers personal loan to meet the personal requirements. Bank helps customer to take care of all kinds of expenses at a short notice. The Loan may be availed to meet expenses related to marriage, travel, honeymoon, holiday and medical expenditure or for any other personal use. It is also available to Pensioners / Defense Pensioners. Loan is also available for Earnest Money Deposits for buyers of home / flat / plot.

(12) Loan for financing Individuals for subscription to Public Issues / IPO

Loan for financing Individuals for subscription to Public Issues / IPO for the person to take smart investment decisions and avail of the benefits. Customer can avail loan up to ` 10 Lakhs for subscribing to new issues. Loan is offered at affordable / competitive interest rate. Customer can invest to pay within maximum period of 90 days. Banks give option to continue the loan thereafter by availing loan against the allotted shares.

(13) Reverse Mortgage Loan

Reverse mortgage loan aims at making financial assistance available to senior citizens. Customer should be Senior Citizen of India, above 60 years of age. Married couples will be eligible as joint borrowers provided one of them is above 60 years of age and age of spouse is not below 55 years at the time of application. Customer should be the owner of a residential property (house or flat) located in India in his/her own name. Residential property should be used as permanent primary residence (fully self occupied property). The Commercial property will not be taken as a security under the product.

3.1.2 Types of Home Loan

Various kinds of home loans are available in India. They are described below:-

1. Home Purchase Loan

These are the basic home loans for the purchase of a new home. These loans are given for purchase of a new or already built flat/bungalow/row-house.

2. Home Improvement Loan

These loans are given for implementing repair works and renovations in a home that has already been purchased by the customer. It may be requested for external works like structural repairs, waterproofing or internal works like tiling and flooring, plumbing, electrical work, painting, etc.

3. Home Construction Loan

These loans are available for the construction of a new home. The documents required by the banks or bank for granting customer a home construction loans are slightly different from the home purchase loans. Depending upon the fact that when customer bought the land, the lending party would or would not include the land cost as a component, to value the total cost of the property.

4. Home Extension Loan

Home Extension Loans are given for expanding or extending an existing home. For example addition of an extra room, etc. For this kind of loan, customer needs to have requisite approvals from the relevant municipal corporation.

5. Land Purchase Loan

Land Purchase Loans are available for purchase of land for both home construction or investment purposes. Therefore, customer can be granted this loan even if customer is not planning to construct any building on it in the near future. However, customer has to complete construction within tenure of three years on the same land.

6. Bridge Loan

Bridge Loans are designed for people who wish to sell the existing home and purchase another. The bridge loan helps finance the new home, until a buyer is found for the old home.

7. Balance Transfer

Balance Transfer loans help customer to pay off an existing home loan and avail the option of a loan with a lower rate of interest. Customer can transfer the balance of the existing home loan to either the same banks or any another banks.

8. Stamp Duty Loan

These loans are sanctioned to pay the stamp duty amount that needs to be paid on the purchase of property.

9. NRI Home Loan

This is a special home loan scheme for the Non-Resident Indians (NRI) who wish to build or buy a home or land property in India. They are offered attractive housing finance plans with suitable reimbursement options by many banks in the country.

3.1.3 Banks, Housing Finance Companies and Co-operative Banks provide Home Loans in India

All the nationalized banks, private sector banks, foreign banks and housing finance companies provide home loan in India. The detailed information of these banks and companies is given in Annexure (1). Even a number of co-operative banks provide the home loan in India. It is not possible to mention the names of all the co-operative banks in India because their Act and Registrar are different in different states. The list of Co-operative banks which are functioning in Surat and provide home loan is given in Annexure (2).

3.2 Basic Process of Availing Home Loan in India

After deciding for availing home loan one should go through the process of home loan which is applicable to customers as well as banks.

3.2.1 Determination of Loan amounts

Loan eligibility is based on two separate calculations:

1. The amount of Loan repayment that a customer can afford to make every month.
2. A specified percentage of the cost of the property.

The amount of the loan sanctioned will be the lower of the two figures arrived at after making this two calculation.

It is possible that while the customer's income (and hence, customer's ability to repay) could make customer eligible for a higher loan, the bank will almost always cap the sanctioned loan amount at 80 to 90 per cent of the property cost.

[i] Repayment Ability - The Most Important Determination

Customer's ability to repay is based on income and expenditure pattern. For instance, if a customer's monthly income is ₹ 10,000 and his monthly expenses is ₹ 8,000 the customer can certainly pay ₹ 2,000 towards any potential home loan he can take. This amount can now be used as the installment amount and the customer's eligibility can be reverse – calculated. The larger customer's repayment capability, the higher will be customer's loan eligibility.

$$\text{Home loan eligibility Rs. in lakh} = \frac{\text{amount determined by the banks as available for loan repayments}}{\text{Loan installments per lakh Rs. for the selected tenure}}$$

[ii] Determination of Income

Banks need to be sure about income stability of customer. Which is why, they may not consider the following categories of income while calculating loan eligibility:

- Performance bonus, medical reimbursements or leave travel allowance, as these are not certain, any case annual perks are not available every month to help in monthly repayments. Some banks, however, are willing to consider these amounts either partially or fully as 'income'.
- Overtime may be of temporary nature. Again, if the overtime is shown as being received consistently for a long period of time, some banks may consider at least a part of this as 'income'.

- Interest income since the underlying investments on which these incomes are earned may be liquidated to pay for customer contribution required towards the cost of the house. But if a customer can convince some bank that the interest income will remain even after customer have bought the house, the bank may be persuaded to include the interest income while calculating loan eligibility.
- Conveyance or entertainment / other allowances paid in cash through vouchers, unless customer regularly deposits the cash reimbursement in his/her salary account. Banks will hesitate to consider it for a loan since they have no document to verify whether such an allowance is indeed paid.
- Earnings from non-verifiable sources such as tuition / tailoring are not considered as 'income' by the banks unless business of this kind is carried on in a verifiable manner.
- Agricultural income, since this is non-taxable and non-stable as well, most banks do not give this any weightage or give significantly lower weightage.
- Rental income is being consistently received and shown in the income tax (IT) returns and copies of the rental agreements are available, banks may consider part or whole of this as 'income'.

If a customer is a salaried employee, some banks apply the normative percentage on the gross salary, while some apply it on customer's net salary. Having said that, most banks go by gross salary as the net salary varies from month to month (deduction of festival advances, medical reimbursements given, or grant of leave travel allowance that month). These banks allow a smaller percentage of customer income as available for payment of loan installment; while those applying it on net salary allow a higher percentage of the salary.

In case of customer is self-employed, the difference in eligibility norms can be glaring. Some banks strictly consider only returned income, that too an average of last two or three years of income, to smoothen out any sharp increases in reported incomes. Some banks will add full/half of the depreciation to calculate the base income.

Recognizing this, quite a few banks have evolved eligibility norms that work around these issues. Let us call these banks 'self- employed-friendly banks'. Some of the

things they might have for calculating eligibility norms that are self-employed friendly are:

- Considering customer's 'actual income' as multiple of customer's 'disclosed income'.
- Estimating customer's 'actual income as a percentage of 'gross receipts' and ignoring customer's 'disclosed income'.
- Clubbing the income of entities controlled by customer such as private limited companies or partnership firms in which customer have substantial stakes or are a partner by making such entities joint borrowers to the loan.

Some banks do not consider that part of income which forms customer's yearly investment which is allowed as deduction under section 80C. This amount is not considered as income. However some banks have considered this as income if investment is liened by bank authority.

Most foreign banks are 'self-employed friendly' on the above lines. Most banks do empower local level officials with discretionary powers to enhance loan eligibilities based on their subjective assessment of customer's true income.

[iii] Clubbing of Incomes of Relatives

Eligibility is also calculated by clubbing the customer's income with that of his relatives. All banks allow clubbing of the spouse's income to work out the loan eligibility. In such cases, they insist on making the spouse a joint borrower (or co-borrower). The basic premise behind using pooled incomes for calculating eligibility is that both parties will actually combine their income and pay off all expenses (including the home loan installment). However, banks are selective in extending this concept of pooling of incomes to other relations. Some banks allow parents, children and brothers to be joint borrowers.

[iv] Cost of the Property

The bank naturally wants customer to put in a contribution towards the cost of the house so that customer has a stake in its continued maintenance. This also ensures that if the value of the house goes down in future, the bank's outstanding loan amount is lower

than the market value of the property. The amount the customer is expected to put in is called 'margin money' or 'down payment'. Generally bank gives loan amount of 85% to 90% of the agreement value of the property. Even if a customer's income is enough to justify a higher loan, the bank will give a maximum loan based on its margin requirements.

➤ **Age of the Building**

The down payment can also vary depending on the age of the property. If the property is older, the down payment requirement may be higher. Most banks have a cap on the maximum age of the building at the end of the loan tenure. This would normally be fifty years. So if a customer is buying a property on resale and the current age of the building is thirty-eight years, the probability of getting a tenure higher than twelve years is very low despite the fact that the customer may otherwise be eligible for a twenty-year loan. This reduction of tenure would reduce the loan eligibility.

➤ **Unaccounted Component**

In some real estate transactions a portion of the cost is not accounted for in any of the documents related to the purchase. Thankfully, this practice is on the decline especially where the property is bought from reputed builders. No bank takes this unaccounted amount in calculating the cost of the property while determining the loan amount eligibility.

➤ **Resale Value**

The resale value of a property is taken into consideration before the bank lends money to buy a property. It ensures that in the unlikely event of a default, should the bank need to dispose the property to recover its dues, the bank is well covered to the extent of the home loan provided. This is more of a problem in case of resale properties and lesser one in case of properties purchased from reputed builders.

➤ **Independent Valuation of the Property**

Every bank has practised that bank will not give a loan (or give the loan at a higher rate) when the property is being bought from a relative. Also, the bank insists on

an independent valuation of the property and the maximum loan amounts are based on this valuation rather than on the agreement value.

Elements to Determine Cost of the House

(a) Readymade Properties

- Agreement value for buying the property.
- Value of amenities provided along with the flat and payment made separately under an amenities agreement. In most cases, the amenities agreement is an attempt to segregate the cost of the amenities to avoid paying the high stamp duty on real estate in India. Most banks restrict the value of the amenities to around 20 per cent of the total agreement value of the flat. However, if the amenities agreement is also stamped and registered most banks will consider 100 per cent of such costs.
- Stamp duty and registration charges to be paid on the agreement.
- Initial capital expenses, such as civil work, are to be met with.
- Some banks will also include transfer charges payable to a cooperative society, deposits required by electricity companies, and separate payments for club houses.
- Banks would also consider any cost incurred towards purchase of a parking space.
- Cost of furnishing: In case of specific tie-up with a builder, a bank may include the cost of ready furnishings provided along with the flat.

Typically bank will not provide loan for some of the elements of cost such as stamp duty or registration cost. But some banks consider cost such as stamp duty or registration cost include in cost of property.

(b) Self-Constructed Properties

Cost of the land, taken as the cost to customer or current market value, whichever is lower. Some banks will not take the cost of the land into account if customers have bought it more than a year ago. Cost of construction as estimated by customer's architect and vetted by the bank, fees paid for obtaining legal and statutory approvals, stamp duty and registration charges payable on agreement.

3.2.2 Application Form

Filling up the application form is the first step towards the home loan. The look of an application form may differ from bank to bank, but nearly 80 per cent of the information they need is similar. Most of this pertains to customer's personal and professional information, details of customer financial assets and liabilities and the details of the property (if finalized) including the estimated cost and the means of financing the same.

While submitting the application form, each bank would ask for documents to establish customer income. This will need to be backed up by proofs such as copies of last three years' income tax returns (alongwith copies of computation of income / annual accounts, if any), Form 16 / Form 16A, last three months' salary slips and copies of the last six months' statements of all customer active bank accounts in which customer salary / business income details are reflected.

Alongwith the application form and the credit documents, banks will charge processing fee. This fee varies from bank to bank, but is usually around 1 to 2 per cent of the total loan amount.

Most banks have flexible fee structures, and it is advisable that customer negotiate hard to find out the bank's minimum fees though it is unlikely that a bank will agree to provide a loan without any upfront fee at all. Some banks have zero upfront-fee loans but that advantage may be negated as their other charges such as 'legal charges' and stamp duty' are normally higher. The bank statements are scrutinized for:

Level of Activity

In case of self-employed persons, this gives information about the extent of their business activities.

Average Bank Balance

A customer relation is to be established with the bank after scrutinizing average bank balance maintained in a savings bank account speaks volumes about the spending and saving habits of any individual.

Cheque Returns

A small charge debited by customer bank in the statement indicates that a cheque issued by customer was returned by customer bank. Many such returns can have a negative impact on customer loan sanction.

Cheque Bounces

Cheque deposited by customer are returned by the issuer's bank they will be visible in customer bank statement and banks have specific norms as to how many such returns are acceptable in a period of one year.

Regular Periodic Payments

The existence of periodic payments to other finance companies/banks indicates an existing liability and customer will need to provide full details to the lender.

Customer Age

Proof of customer age, such as, license / passport / ration card / PAN card / Election Identity Card will need to be submitted.

Identification Proof

Same as above but with customer photograph. Sometimes the same document, if it contains a photograph, the current residential address and the correct age can be the proof for all three things.

Customer Employment Details

If Customer Company is not well known, then a short summary about the nature of the company, its business lines, its main customers, its competitors, number of offices, number of employees, its turnover and profits may be needed. Usually the company profile that is available on the standard website of the company is enough.

Customer Investments

This helps the bank to estimate customer ability to pay for the down payment as well as customer savings habit.

3.2.3 Personal Discussion

Some banks insist on meeting customer after receiving the application form, and before the loan sanction, together more details about customer that may not be mentioned in the application form.

If the bank calls customer for personal discussion (this is normally to reassure them of customer repayment capacity) make sure customer carry all the original documents pertaining to the information provided on the application form. Banks process loans only after they are convinced favorably about customer.

3.2.4 Bank's Field Investigation

Every bank validates customer information, including customer existing residential address, customer's place of employment, CIBIL report, employer credentials (if customer's work for a small organization) and residence and office telephone numbers. This is normally done by sending representatives to customer workplace or residence. These representatives are usually employees of small firms to which the bank has outsourced this activity. The ability of these personnel is uneven and the interaction with them may not always be smooth. Banks also do a quick check on the references customers have provided in the application form.

3.2.5 Credit Appraisal and Loan Sanction

The bank establishes customer repayment capacity based on customer's income, age, qualification, experience, employer and nature of business (if self-employed). Based on these parameters, customer maximum loan eligibility is worked out and the final loan amount communicated to customer, then issues a sanction letter. This letter may either an unconditional letter, or may have certain terms and conditions mentioned. Customer has to fulfill these conditions before the loan is disbursed.

3.2.6 Offer Letter

Once the loan is sanctioned, an offer letter is sent mentioning details like loan amount, rate of interest, whether fixed or variable rate of interest is linked to a reference

rate, tenure of the loan, mode of repayment, if the loan is under some special scheme, the details would be mentioned, general terms and conditions of the loan and special conditions, if any.

Acceptance Copy of the Offer Letter

If customer accepts the offer letter the bank will ask customer to sign a duplicate letter for the same bank's records.

3.2.7 Submission of Legal Documents

Once customer selects property, the bank requires customer to hand over the entire set of original documents pertaining to customer property so that it can keep them as security for the loan amount given to customer. These documents would remain in the bank's custody until the loan is fully repaid.

Legal Check

Every bank conducts a legal check on customer documents (including draft sale documents that customer will be entering into with customer seller) to validate their authenticity. These documents normally include:

- The title documents of customer seller which prove the seller's title including the chain of title documents if he is not the first owner.
- NOCs from the legal owners such as Cooperative Housing Societies, statutory development authorities, or the leaser of the land in the case of leasehold land. NOCs are not required where the property is situated on freehold land and the entire land is being transferred along with the structure.

The banks send these documents to a lawyer on their panel (either In-house or outsourced) for a thorough scrutiny. Some banks will charge a special fee to cover these cost while some banks will ask customer to pay these directly to the concerned lawyer though for most banks the upfront fee covers these fees as well. The lawyer's report either gives a go-ahead if the documents are clear, or it may ask for a further set of documents. In the latter case, customer are expected to handover the additional documents to the bank for a clear title.

Since property documentation in India is non-standard and non-transparent, it helps if customer buy property from a reputed builder since the builder would know the process inside out, and keep all the documents ready. In fact, the maximum customer service issue arises at this stage because of a lack of standardization. Also, as per the laws of several states, there are heavy transfer charges on sale of property and / or very heavy stamp duties. This has given rise to sale of property by showing lower consideration than agreed for, with the balance being paid either on an amenities agreement or in cash. Moreover, the concept of sale by executing ‘Irrevocable Power of Attorney’ has gained ground especially in the National Capital Region. All this could restrict the choice of customer lenders and may therefore increase the cost of the loan which customer might want to keep in mind while finalizing these kinds of properties.

3.2.8 Valuation of Property

Valuation has become a key parameter in determining the loan amount that can be sanctioned by the bank. The valuation process is quite subjective and dependent on the quality and ability of the person sent by the bank for valuation. In many cases, the valuer determines the value of the property at an amount that is lower than the documented cost of the property and this would result in the loan amount being decreased since the bank funds a certain percentage of the cost or valuation of the property whichever is lower. Now a day, valuation of property is determined according to “Jantri Value”. Valuer could not exceed the value of property if valuer had proper evidence for higher value.

3.2.9 Registration of Property Documents

After the legal and technical / valuation check, the draft documents as cleared by the lawyer need to be finalized and signed and the stamping and registration of the documents need to be done. Also if any No Objection Certificates (NOCs) are pending these need be obtained in the format approved by the bank’s lawyer.

3.2.10 Disbursement

The best part is when customer actually received the cheque. This happens once the bank has ensured that the property is legally and technically clear and after customer has handed over all the original documents pertaining to the transfer of ownership of property in customer favour, having executed the necessary loan agreements with the bank. But at this stage, customer should also provide documents to prove that customer have paid customer personal contribution towards the property, since banks normally fund only up to 85-90 per cent of the total cost of the house.

In case customer are expecting money from other sources to fund customer own contribution, customer need to provide sufficient evidence for the same. It is only after submitting this proof that the bank will release part disbursement of the loan.

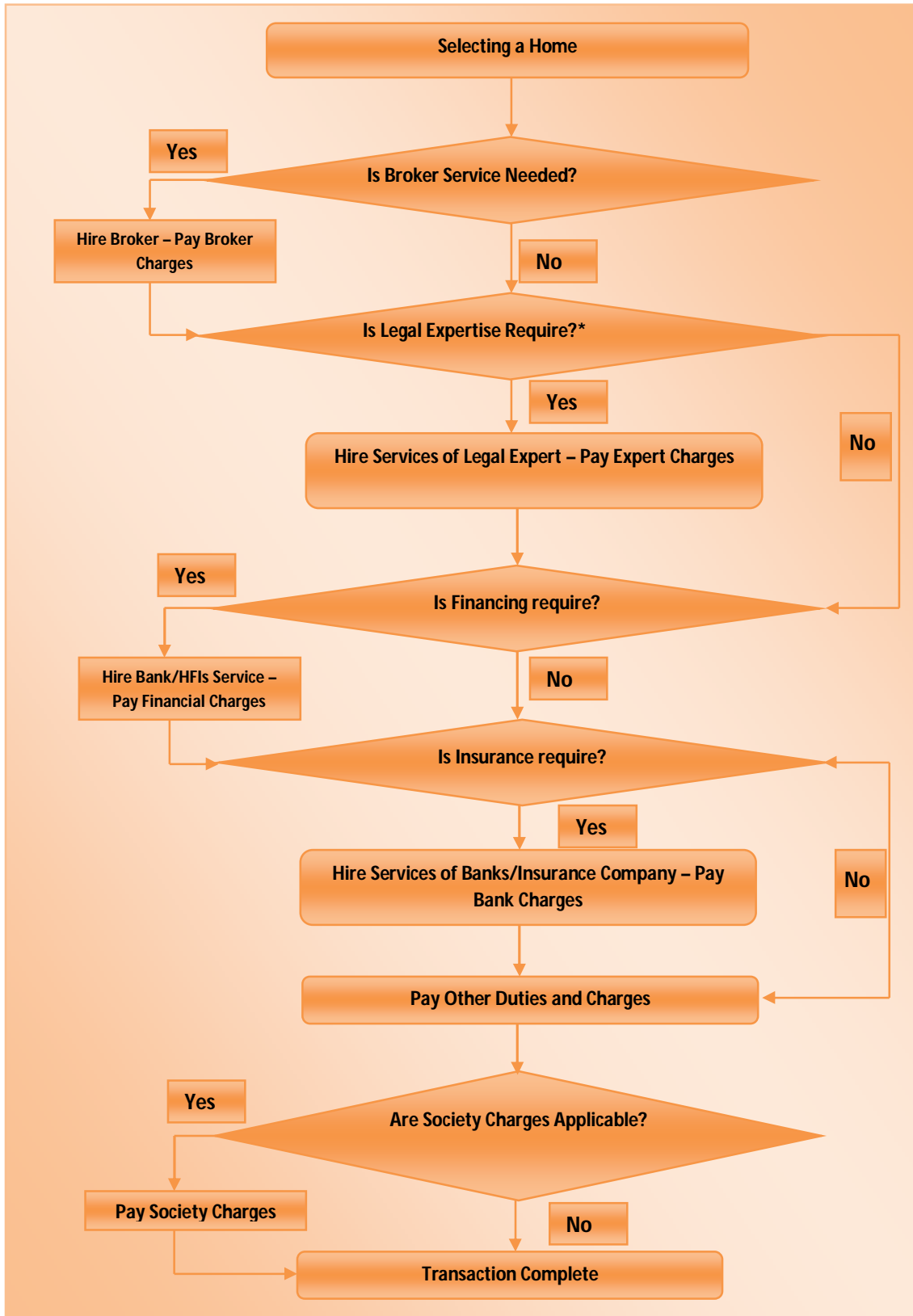
The cheque will be in the name of the reseller (for resale flats), builder, society or the development authority. It is only in exceptional circumstances, that is, if customer provides documents to support that customer have made an excess payment from customer own account that the cheque will be handed over to customer directly by the bank.

Usually, loans are disbursed on the basis of the stage of construction of the property. This would mean that the disbursement could either be full and final (in the case of resale or ready possession properties) or part disbursement (in the case of under-construction properties). Each option would have different disbursement processes. Customer should keep photocopies of all documents / agreements / letters submitted to the bank to avoid any misunderstandings later.

Apart from home loan process, the following flow charts shows home acquisition process and booking process which are important for a home loan buyer.

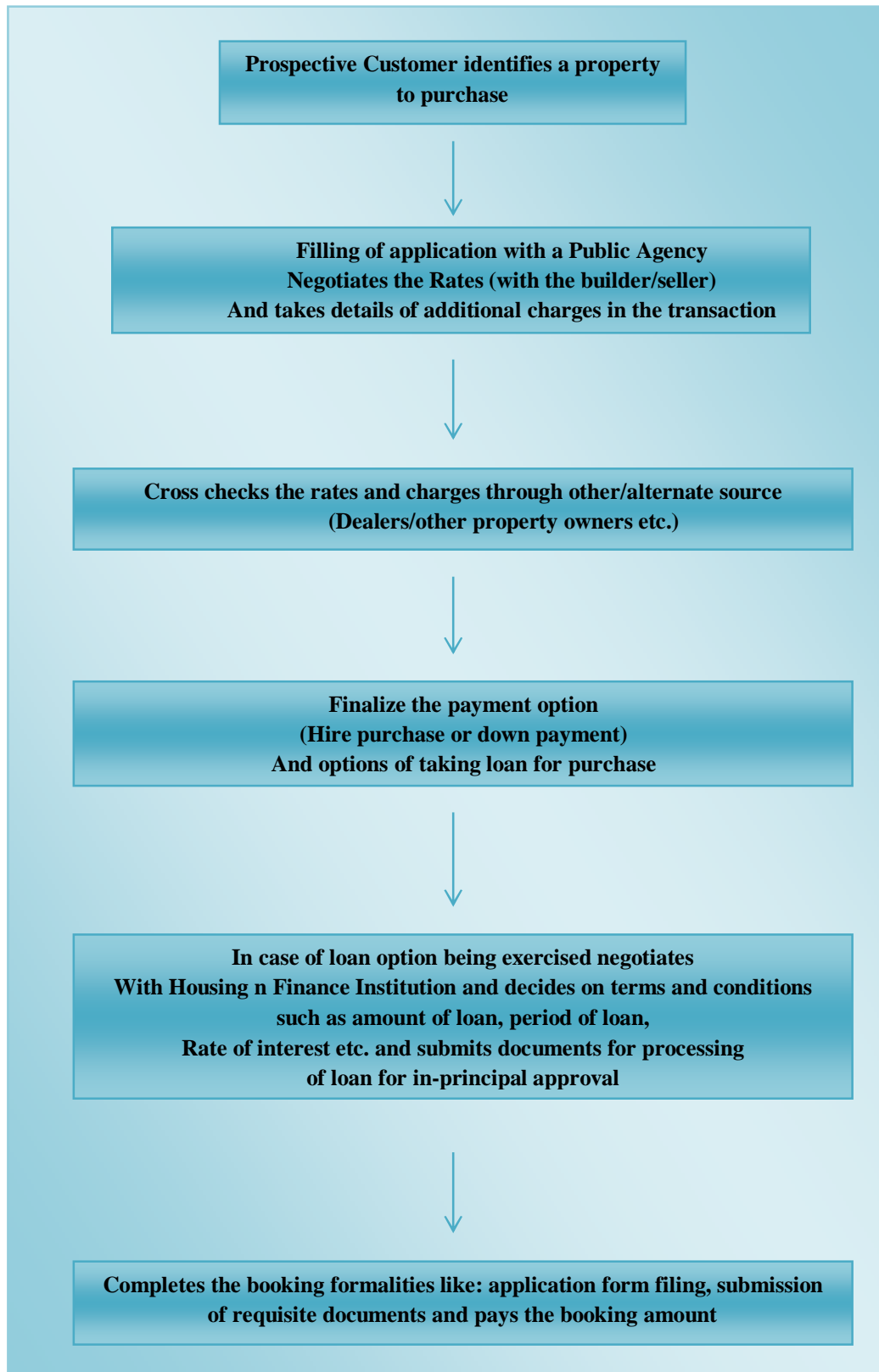
3.2.11 Flow Chart of Home Acquisition Process

Figure 3.1 Flow Chart of Home Acquisition Process



3.2.12 Flow Chart of the Booking Process

Figure 3.2 Booking Process



3.3 EMI (Equated Monthly Installments)

When customer takes a loan, he has not only to pay back the amount of money he has borrowed, but also the cost of borrowing, which is the interest rate on the loan. The cost of the loan will vary depending upon the number of years. Customer's are borrowing for, usually, a longer-term loan which will be more expensive, than a shorter loan, because simply put, the lending institution has taken a risk, over a longer period of time. An EMI's amount is dependent on the principal amount borrowed and the interest that is levied. The number of EMIs on the other hand, will be dependent on the tenure of the loan. The longer the loan period, the more number of EMIs customer needs to pay. The EMI usually remains constant throughout the period of the loan. However, what of this is used to pay off interest and what part to pay off the principal varies. In the beginning of the loan repayment period, the interest component of an EMI is higher and the principal amount is lower. Later on, as the years go by, the principal amount becomes higher and the interest becomes lower.

3.3.1 Calculation of EMI

An EMI can be calculated on a daily reducing, monthly reducing, quarterly reducing, and half yearly or yearly reducing basis. The EMI will be lowest, if it is calculated on a daily reducing basis.

Daily Reducing Basis: Even better than a monthly reducing calculation is a daily reducing method, which some banks apply.

Monthly Reducing Balance: Now, let us take a real life example of an EMI calculated on a monthly basis. Keeping the loan amount at ₹ 1 Lakh the period as 15 years and the rate of interest as 12%, the bank will change the principal outstanding every month. After the customers pay their EMI for the month, the new reduced amount will be calculated only for the next month.

Similarly, in a quarterly, half yearly or annual reducing balance the interest is levied according to principal outstanding at the end of these periods. Progressively, the EMI works out to be more, with the highest being in an annual reducing basis.

Computation of EMI is calculated with the help of the following formula:

$$EMI = L \times r \times (1 + r)^n / ((1 + r)^n - 1)$$

Where, L - Loan Amount

r - Rate of Interest in Decimals

n - Period of loan (in years).

3.4 Calculation of Interest Rate

Interest rates continue to be calculated in different ways. The methods that are no longer widely used are flat rate and annual reducing basis.

(a) Flat rate

Flat interest is calculated every year on the original principal amount without taking into account the repayments that have occurred. The only reason a lender will quote a flat rate of interest is to hide the actual interest rate, which is likely to be obnoxiously high. Unless desperate, customer must not sign any contract where the interest rate is calculated on a flat basis. There is a widespread misconception that the 'effective interest rate' is a certain multiple of the 'flat rate'. This is absolutely incorrect. There is no magic formula that converts a 'flat rate' into an 'effective interest rate'.

(b) Annual reducing basis

Here an Equated Annual Installment (EAI) is calculated which is then divided by twelve to find out the monthly EMI. The EAI is calculated assuming that it is payable at the end of the year even though, in practice, the installments are paid every month. Thus the actual cost is higher than the stated cost.

No large bank currently uses this method of interest calculation for new loans. However, some banks continue to use this kind of interest rate calculation for their shorter duration loans, such as, home improvement loans and loans against property. The same rule applies to these kinds of loans as in the case of loans with flat rates, though to a much lesser degree. This kind of interest calculation is used to mask the higher interest rate being charged.

(c) Monthly reducing / Daily reducing basis

This is the most commonly used form of calculating interest rates. There is very little difference between the two methods as in most cases the installments are, in any case, paid on a monthly basis. However, where the interest is calculated on a monthly reducing basis and customer pay the installment a few days early, the credit is given only on the due date and not on the date of payment whereas, in cases where the interest is calculated on a daily basis, the credit is given on the date of payment. This does result in some savings though it may not be very significant unless customer plan to pay all customer installments well before time.

(d) Fixed Rate and Variable Rate

There are two basic kinds of interest rates: (i) fixed interest rate and (ii) variable interest rate also called adjustable rate loan or floating rate.

Fixed Interest Rate

As the name suggests, the interest rate in these loans remains constant throughout the tenure of the loan. These loans are normally priced higher than variable rate loans for a similar tenure.

As a variation, some banks offer a resettable fixed rate loan under which the rate remains fixed for a particular period (say three years) and is then reset every three years. The interest rate on such resettable fixed rate loan is normally lower than extended tenure fixed rate loans.

Variable Interest Rate

Some banks also call these adjustable rate home loans. Here the interest rate is linked to a benchmark rate. Some banks use their prime lending rates as the benchmark rate while some banks have specific benchmark rates that they use for home loan purposes. Typically, the interest rate applicable to customer loan tends to be a certain percentage below this benchmark rate. (This is the current trend. Nothing stops the bank from having a low benchmark rate and quoting the applicable interest rate as a certain percentage above the benchmark rate. In fact this is the trend worldwide.)

The benchmark rate of a bank called Retail Prime Lending Rate (RPLR) by the bank) or BPLR (Base Prime Lending Rate) is 10.25% per annum. The bank may currently quote the interest rate for a twenty-year home loan at 2% below its RPLR. Therefore, the rate applicable for customer loan currently becomes 8.25% per annum (which is 2% less than 10.25%).

The applicable interest rate for customer loan will henceforth be governed by the movement in the RPLR. If RPLR goes up, the applicable interest rate on customer loan will go up and similarly, the applicable interest rate will go down if the RPLR goes down.

(e) Prime Lending Rate / BPLR

The Prime Lending Rate (PLR) is the rate a bank will charge its best (prime) customers. Therefore, by definition, banks should not lend below their PLR. In India the concept of PLR is a bit of a misnomer since banks lend a significant portion of their funds to blue chip corporate at rates much lower than their PLRs. Hence, the declared PLRs for most banks only serve as pegs or benchmarks for deriving the rates for the other customers. This is the reason that banks charging rates lower than their PLR for home loans as well. Most variable rate home loans are currently priced at a certain percentage below the declared PLR of the bank.

3.5 Interest Rates of Home Loan, Processing Fees and Pre-Payment Charges

Generally banks are independent to determine their home loan interest rate depending upon banks' BPLR (Base Prime Lending Rate) or Base Rate. But, on an average housing loan interest rate for nationalized banks varied to 8% to 10% and for private banks, foreign banks and co-operative banks varied to 9% to 12%.

As concerned with processing fees it is totally depend on credit policy of each bank. Some banks (nationalized banks) declare waiver of processing charges to attract the customers during the festival season. Generally, private banks levied processing charges 2% to 3% depending upon credit policy of banks. However, co-operative banks generally levied 0.5% processing charges.

As far as concerned with pre-payment charges, no pre-payment charges is to be levied by the nationalized banks and co-operative banks. But, private banks have practiced to levy pre-payment charges depending upon credit policy of the banks.

The detail information regarding interest rate, processing fees and pre-payment charges of different banks given in annexure (3).

3.6 Stamp Duty and Registration Charges across various States and Cities

In purchasing home, stamp-duty play vital role. Because of stamp duty, cost of house increase from 5% to 8% as stamp duty applicable to the state in Gujarat, stamp duty is charge as per Bombay Stamp Act as applicable to Gujarat.

As compared to other states, stamp charges and registration charges are less in Gujarat state. Also in Gujarat incentive given by state government to women so that there are no registration fees paid if property has been registered only in the name of women. The detail information given in annexure (4).

3.7 Home Insurance

After sanctioning home loan one needs to insure it against future risks and perils. Besides natural calamities such as cyclones and earthquakes, man-made disasters, too, pose significant threats to residential properties. Here comes the use of home insurance policy. In the present time, a number of insurance companies and banks are coming up with attractive home insurance policies, which provide cover for the property in case of all the aforementioned hazards.

Tragedies due to gas cylinder explosion, fire due to electric short circuit or disasters like burglary are also covered by majority of home insurance policies available in the market. It shall be noted that a home insurance does not cover the market value of the home. The price of the home includes the cost of the land and the cost of constructing the building structure on this land and the land cannot be insured. The insurance cover is only for the cost of constructing the building. The sum insured is calculated by multiplying customer home area by the construction rate per sq.ft.

Things Included In Home Insurance Policies

- Building structure
- Contents inside the home

Insurance Covers for a Building Structure

The Fire and Special Perils covers damages to the structure of home due to the following reasons

- Fire
- Storm, Tempest, Flood Inundation
- Riot, Strike Malicious Damage
- Lightning
- Explosion Implosion
- Aircraft Damage
- Damage Due To Impact By Vehicles
- Subsidence, Landslides And Rockslides
- Bursting And/or Overflowing Of Water Tanks, Apparatus And Pipes
- Missile Testing Operation
- Leakage From Automatic Sprinkler Installations
- Bush Fire
- Earthquake Cover
- Terrorism Cover

Insurance Cover for Contents inside the Home

- This cover is only for damages or loss of the contents inside the home -electronic and electrical goods, furniture and fixtures, clothing, jewelry and any other contents inside the home.
- The covers that can be taken for the contents include fire and special perils cover, earthquake cover, burglary, loss / damage to contents due to burglary or an attempted burglary loss of jewelry, gold ornaments, silver articles and precious stones kept under lock and key.

3.8 Tax Benefits

In the present study, I wanted to reveal that the Government of India has announced following tax benefit in direct tax and indirect tax.

3.8.1 Income Tax / Direct Tax

There are certain tax benefits for the resident Indians based on the principal and interest component of a loan under the Income Tax Act, 1961. It may help one get tax benefit up to ₹ 46,350 p.a. (approx). If interest repayment of ₹ 1,50,000 p.a. is paid. In addition to this, also is one eligible for getting tax benefits under section 80C on repayment of ₹ 1,00,000 p.a. that further reduces the tax liability by ₹ 30,900 p.a.

These deductions are available to assesses, who have taken a loan to either buy or build a house, under Section 24(b). However, interest on borrowed capital is deductible up to ₹ 1,50,000 if the following conditions are fulfilled:

- Capital is borrowed for acquiring or constructing a property on or after April 1, 1999.
- The acquisition and construction should be completed within 3 years from the end of the financial year in which capital was borrowed.
- The person, extending the loan, certifies that such interest is payable in respect of the amount advanced for acquisition or construction of the house
- A loan for refinance of the principal amount outstanding under an earlier loan taken for such acquisition or construction.

If the conditions stated above are not fulfilled, then the interest on borrowed capital is deductible up to ₹ 30,000 though the following conditions have to be satisfied:

- Capital is borrowed before April 1, 1999 for purchase, construction, reconstruction repairs or renewal of a house property.
- Capital should be borrowed on or after April 1, 1999 for reconstruction, repairs or renewals of a house property.
- If the capital is borrowed on or after April 1, 1999, but construction is not completed within 3 years from the end of the year, in which capital is borrowed.

In addition to the above, principal repayment of the loan / capital borrowed is eligible for a deduction of up to ₹ 1,00,000 under Section 80C from assessment year 2006-07.

Terms and conditions for availing Tax benefits on Home Loans

1. Tax deductions can be claimed on housing loan interest payments, subject to an upper limit of ` 1,50,000 for a financial year.
2. An additional loan for extension / improvement to the same house and the individual's deductions on the existing loan are less than ` 1,50,000 he can claim further benefits from the additional loan taken, subject to the upper limit of ` 1,50,000 for a financial year.
3. Tax benefits under Section 24 and deduction under section 80C of the Income Tax Act can be claimed on accrual basis and payment basis respectively. If an individual fails to make EMI payments, he cannot claim tax benefits U/s 80C.
4. According to the Income Tax Act, tax rebates can only be claimed by the loan applicant.
5. The interest on home loans taken for repairs, renewals or reconstruction, also qualifies for the deduction of ` 1,50,000.
6. Both the spouses who are tax-payers with independent income sources, get tax deduction benefits, with respect to the same housing loan, to the extent of the amount of loan taken in their own respective name.
7. If an individual buys a house and sells it within the same year or after 3 years, and if any profit is made, then a capital gains tax liability arises on the same for which the individual is liable to pay short-term capital gains tax since the sale took place in the same year. But in case, if the sale had taken place after 3 years, then a long-term capital gains tax liability would have arisen.
8. On being proved that the home loan is simply an arrangement between the loan-seeker and the builder or with a third party for the purpose of claiming tax benefits, then tax benefits will not be allowed and benefits, previously claimed, will be clubbed to the income and taxed accordingly.
9. Tax benefits on interest on housing loans are allowable only for the original loan and according to Section 24(1), tax benefits can also be availed for a second loan taken to repay the first loan but not for subsequent loans. This means that if you have already availed of one loan to refinance the original loan and now want to avail a third loan to refinance the second loan, tax rebate on interest payments will not be permissible.

Deduction Available to Person on Transfer of House Property U/s 80 C

Any stamp duty, registration fees and other expenses for the purpose of transfer of such house property is allowable as deduction U/s 80C of one's income. To this extent one can claim benefit whether or not home loan principle portion is paid to bank or not.

Set off Loss U/s 71B

Negative income in case of income from house property (which is always there for self occupied property and possible in some cases of let out property) such as set off amount of loss under section 71B of the Income Tax Act, 1961 is allowed to be adjusted against positive income under other heads and contributes to savings in tax, at the applicable rate.

Deduction Available to Developer and Building Housing Projects in Income Tax Act Profit from Developing and Building Housing Projects [Section 80-IB(10)]

1. Deduction Allowable

Deduction would be allowed to an undertaking developing and building housing projects in respect of profits derived from such housing projects.

2. Approval Needed

Any such housing project shall be approved by a local authority on or before 31/3/2008 and as may be prescribed by the law.

3. Amount of Deduction

Amount of deduction would be equal to 100 per cent of the profits derived during the previous year from the development and building of housing projects.

4. Commencement and Completion of Project

It is provided that the undertaking has commenced or commences development and construction of the housing project on or after the 1-10-1998 and completes such construction within the specified time. Specified time for completion of project is as prescribed by the law.

5. Date of Approval in Case of Multiple Approvals

It is provided that in a case where the approval in respect of the housing project is obtained more than once, such housing project shall be deemed to have been approved on the date on which the building plan of such housing project is first approved by the local authority.

Then the starting point for completion of project will be counted from 31/3/2005 and the project is to be completed within four years there from.

6. Date of Completion

It is provided that the date of completion of construction of the housing project shall be taken to be the date on which the completion certificate in respect of such housing project is issued by the local authority.

7. Size of Plot of Land

It is provided that the project is on the size of a plot of land which has a minimum area of one acre.

8. Size of the Residential Unit

There is a requirement vis-à-vis the maximum size of the residential unit also. This size has been linked to the city in which the housing project is situated. Maximum Size of Residential Unit is about 1,500 Sq.ft. (Other City) for Delhi and Mumbai maximum size of residential unit is about 1,000 Sq.ft.¹

3.8.2 Indirect Tax Applicability

In Relation to Service Tax Matter

Construction of Residential Complex Services is taxable service with effect from 16.06.2005 vide notification no. 15/2005 dated 07.06.2005. From 16.06.2005, residential house is costly as service tax is applicable. For the purpose of construction of complex means:

¹ Singaniya, V.K. (2011). *Master Guide to Income-Tax*. New Delhi: Taxman Publication Pvt. Ltd. ps.197-199.

- (a) Construction of a new residential complex or a part thereof; or
- (b) Completion and finishing services in relation to residential complex such as glazing, plastering, painting, floor and wall tiling, wall covering and wall papering, wood and metal joinery and carpentry, fencing and railing, construction of swimming pools, acoustic application or fittings and other similar service; or
- (c) Repair, alteration, renovation or restoration of, or similar services in relation to residential complex.

The complex should comprise of building or buildings having more than 12 residential units. Thus, Government gives relaxation which has not more than 12 residential units.

According to me, government has given illusory deduction U/s. 80C in Income Tax Act, 1961, which is applicable to every tax payer and on the other side the Government is declared taxable services of construction of residential complex service in Indirect taxation in service tax. So benefit given in direct taxation U/s 80C will not help properly to housing Industries.²

3.9 National Housing Bank (NHB) Residex

Internationally, construction of housing price index is a practice amongst the developed countries. The launch of NHB Residex in India is arguably the maiden effort by a developing country to capture the trend of price movements in residential property on such a comprehensive scale. Though the residential property market in India is active, there is no organized market which estimates the demand and supply forces and tracks the price movements. The complexity of the markets for house property in terms of the price discovery mechanism which is an outcome of combination of factors like locality, covered area, community facilities, individual layouts etc, emerged as the major challenge in choice of the appropriate methodology for development of a representative price index.

² Gabbawala, Sunil (2011). *Treatise on Service tax*. New Delhi: Bharat Law House Pvt. Ltd. ps. 4.385-4.388.

Keeping in view the prominence of housing and real estate as a major area for creation of both physical and financial assets and its contribution in overall National wealth, a need was felt for setting up of a mechanism, which could track the movement of prices in the residential housing segment. Regular monitoring of the house prices can be useful inputs for the different interest groups. Accordingly, National Housing Bank, at the behest of the Ministry of Finance, undertook a pilot study to examine the feasibility of preparing such an index at the National level. The pilot study covered 5 cities viz. Bangalore, Bhopal, Delhi, Kolkatta and Mumbai. Besides, a Technical Advisory Group (TAG), with Adviser, Ministry of Finance, as its Chairman and comprising of experts members form RBI, NSSO, CSO, Labour Bureau, NHB and other market players, was constituted to deal with all the issues relating to methodology, collection of data and also to guide the process of construction of and appropriate index . Based on the results of the study and recommendations of the TAG, NHB launched RESIDEX for tracking prices of residential properties in India, in July 2007 by Shri P. Chidambram (the Hon'ble Finance Minister).

In order to guide and oversee the construction of NHB RESIDEX and extension of its coverage, to include all the 63 cities under Jawaharlal Nehru National Urban Renewal Mission (JNNURM); a Standing Committee of technical experts has been constituted under the Chairmanship of CMD, NHB with representations from the Government of India, (Ministry of Finance, NSSO, CSO, Labour Bureau), RBI, and other prominent market players.

At present, index is being developed only for residential housing sector. However, at a later stage, based on experience of constructing this index for a wider geographical spread, the scope of the index could be expanded to develop separate indices for commercial property and land, which could be combined to arrive at the real estate price index.

NHB RESIDEX: Salient Features

- Pilot study covered 5 cities viz. Delhi, Mumbai, Kolkata, Bangalore and Bhopal representing the various regions of the country.

- Actual transactions prices considered for the study in order to arrive at an Index which will reflect the market trends.
- 2001 was taken as the base year for the study to be comparable with the WPI and CPI. Year to year price movement during the period 2001-2005 has been captured in the study, and subsequently updated for two more years i.e. up to 2007.
- NHB RESIDEX has been expanded to cover ten more cities, viz, Ahmedabad, Faridabad, Chennai, Kochi, Hyderabad, Jaipur, Patna, Lucknow, Pune and Surat.
- Further, with 2007 as base, NHB RESIDEX has been updated upto June, 2010 with quarterly update (April - June, 2010).
- At the time of last updation and expansion of coverage of NHB RESIDEX to 10 more cities, the base year has been shifted from 2001 to 2007.
- NHB RESIDEX will be up dated on quarterly basis from now onwards. This is the second quarterly update of NHB RESIDEX.
- In the first phase NHB RESIDEX will be expanded to cover 35 cities having million plus population.
- The proposal is to expand NHB RESIDEX to 63 cities which are covered under the Jawaharlal Nehru National Urban Renewal Mission to make it a truly national index.
- Prices have been studied for various administrative zones / property tax zones constituting each city.
- The index has been constructed using the weighted average methodology with Price Relative Method (Modified Laspeyre's approach).
- Primary data on housing prices is being collected from real estate agents by commissioning the services of private consultancy / research organizations of national repute; in addition data on housing prices are also being collected from the housing finance companies and bank, which is based on housing loans contracted by these institutions.³

It is envisaged to develop a residential property price index for select cities and subsequently an all India composite index by suitably combining these city level indices

³ www.nhb.org Residex

to capture the relative temporal change in the prices of houses at different levels. The data of NHB Residex for Surat given in Annexure (5).

3.10 RBI Directive for Home Loans

The Reserve Bank of India (RBI) has in the latest directive asked the Indian banks to be more "fair and transparent" while signing their agreements with the consumers. This has come following complaints from various consumer sections regarding home loans.

It has emphasized on the fact that while giving a home loan, the banks should not tie their loans with their own Prime Lending Rates (PLR) which often results in pro-bank and against consumer interest.

- Households should get credit counseling before signing any loan agreement. In such case, banks should give credit counseling to customer before giving a loan. Any non-governmental organization can also give independent credit counseling to small borrowers.
- Consumers often complain of not receiving benefits of falling interest rates as banks tie their floating rate loans with its PLR and even when rates fall, the banks kept the PLR unchanged. But when interest rates are hiked, the banks increase the benchmark rate, thus making customers pay a higher rate and consequently increase the number of EMIs too. The RBI has asked the banks to mend rules for the same.
- Individual borrowers should ask for the exact tenure and EMI while taking a fixed rate loan. The RBI has also resolved to look into all consumer complaints if it is brought to the regulator's notice.
- The IRDA (insurance regulator) has powers to take action against banks if a customer feels cheated while buying an insurance product. On its regulatory role, the RBI is trying to maintain a balance between the extent of freedom granted to the banks and the objectives of governance.
- RBI has made it mandatory for all banks - including private and foreign banks - to offer a passbook to their customers with the address and telephone number of the nearest branch.

- Customers have often been harassed by banks' call centers where there is no accountability of the query made. The "do not call" registry has also been flouted by banks as customers are bombarded with unnecessary product offerings. The RBI has directed the Indian Banks' Association to come out with a single "do not call" registry or when a customer adds his name to a single bank registry it should then stop unsolicited calls from all banks.
- On rising credit card frauds and wrong statements given by the banks, the RBI has asked the customers to approach the ombudsman to redress their problems. This way the RBI feels would inculcate more consumer friendly practices among Indian banks.⁴

As mentioned earlier, in my study I have selected two banks: one is a nationalized bank (Bank of Baroda) and the second is a Co-operative bank (The Surat peoples Co-operative Bank Limited). In the following paragraphs, profile of these banks are provided:

3.11 Profile of Bank of Baroda

There are many nationalized banks in India which provides home loan. In housing sector Bank of Baroda plays a vital role. Bank of Baroda is one of the lead banks among the all nationalized banks and it is a lead bank for Surat District. So, I have selected Bank of Baroda for my research study.

3.11.1 History

Sayajirao Gaekwad, under whose patronage the bank was incorporated on 20th July 1908 with a paid-up capital of ` 10 Lakhs (now US\$ 20,800). The bank survived the disastrous years between 1913 and 1917 – when as many as 87 banks failed – mainly due to its financial integrity and an abiding responsibility it feels toward its client's hard earned money. These principles have become the guiding mantra of the bank in the 102 years of its existence and have helped steer the bank safely through various financial upheavals. In 1953 Bank of Baroda became one of the first Indian banks to open an office abroad, when it set up a branch in Kenya followed by an office in London six years later.

⁴ “RBI Directive for Home Loan” www.nhb.org.

It has since extended its footprint to 25 countries which it serves through 74 branch offices. The bank was nationalized in July 1969. This set in motion a new phase in its growth. While commerce continued to be its objective, the bank was now also called upon to help in the development of rural markets. With its multi service agency model for urban micro-credit, Bank of Baroda has, today, redefined social banking and has emerged as a leading lender to this community. The mid-1980s marked the beginning of a shift to a buyers' market. The bank responded by diversifying into areas of merchant banking, housing finance, credit cards and mutual funds. Overseas operations were revamped and structural changes intensified in various servicing various needs.⁵

Vision and Mission of Bank

It has been a long and eventful journey of almost a century across 26 countries. Starting in 1908 from a small building in Baroda to its new hi-rise and hi-tech Baroda Corporate Centre in Mumbai is a saga of vision, enterprise, financial prudence and corporate governance.

It is a history scripted in corporate wisdom and social pride. It is a way of ordinary bankers and their extraordinary contribution in the ascent of Bank of Baroda to the formidable heights of corporate glory. It is a story that needs to be shared with all those millions of people - customers, stakeholders, employees & the public at large - who in ample measure, have contributed to the making of an institution. "To be a top ranking National Bank of International Standards committed to augmenting stake holders' value through concern, care and competence".⁶

Branch Network of Bank

The Bank of Baroda has 3283 total branches in India and 84 branches in foreign countries. In Gujarat there are 839 branches and in Surat there are 102 branches of Bank of Baroda. The detailed information about the branch network in different areas of India is given in annexure (6) and (7). I have collected this information from the annual report of the bank, regional office of the bank and website of the bank.

⁵ Tripathi, Dwijendra (2008). *A Century History of Bank of Baroda*. New Delhi: Oxford Press. ps.25-30.

⁶ www.bob.com.

3.11.2 Products and Services of Bank of Baroda

The bank have been provide following facilities to the customer

- Rural / Agri Banking
- Wholesale Banking
- Small and Medium Enterprise (SME) Banking
- Wealth Management
- Dematerialized of shares and securities services
- Product Enquiry
- Internet Banking
- NRI Remittances
- Baroda e-Trading
- Interest Rates
- Deposit Products
- Loan Products
- ATM / Debit Cards
- Retail Banking

Bank of Baroda takes special care to look after the requirements of its shareholders. Given below are the various benefits provided to the shareholders of the bank:-

- Change of address or names of Shareholders
- Transmission of shares
- Transposition
- De-materializing Shares
- Investors Services Department
- Registrars & Share Transfer Agent
- Bonds related to Transfer
- Lodgment of Shares
- Duplicate Share Certificate
- Duplicate Dividend Warrants
- Revalidation
- Means of communication
- Investor Grievance Committee
- Electronic Clearing Services or ECS
- Stock Market Data

Personal Services of Bank

- Deposits
- Gen-Next
- Loans
- Credit Cards & Debit Cards
- Services
- Lockers

Corporate Services of Bank

- Wholesale Banking
- Deposits
- Loans
- Advances
- Services

International Services of Bank

- NRI Services
- FGN Currency Credits (Foreign Currency Credits)
- ECB (External Communication Borrowings)
- FCNR (B) Loans
- Offshore Banking
- Finance in Export and Import
- Correspondent Banking Facility
- International Treasury

Treasury service of Bank of Baroda includes Domestic operations and Forex operations.

Rural Facilities Provided by Bank

Domestic Services

- Deposits
- Priority Sector Advances
- Services
- Lockers

Priority Sector Advances

- Small Scale Industries
- Small Business
- Retail Loans
- Schemes sponsored by the GOI (Government of India)
- Baroda General Credit Card Scheme (BGCC)

3.11.3 Bank of Baroda Home Loan Process

Bank of Baroda extends its hand to help the customers sail through and realize their dream of owning a home. Most competitive rates have made by Bank of Baroda home loans popular among the home buyers. In most of urban area / city Bank of Baroda has started central processing cell - loan factory where file for home loan has been processes centrally for the city. The main concepts for opening cpc centre are early process of sanctioning home loan. Bank of Baroda has committed that the bank will process and sanction the home loan within seven days. The detailed internal process of home loan given is as follows.

3.11.3.1 Purpose of Home Loan

- Construction of new dwelling unit and purchasing of new residential house / flat.
- Old dwelling unit (not more than 25 years old) for dwelling units which are older than 20 years but not more than 25 years, branch to ascertain structural soundness of the building by obtaining an approved engineer's certificate, certifying the structural soundness as well as residual life of the building which should be at least 5 years more than the repayment period.
- For dwelling units which are older than 25 years, Regional Head may authorize such cases on selective basis, subject to, ascertaining structural soundness of the building by obtaining an approved engineer's certificate, certifying the structural soundness as well as residual life of the building which should be at least five years more than the repayment period of the loan.
- Purchase of plot of land, subject to the condition that a house will be constructed thereon within 3 years or up to the period allowed by Development authority, whichever is earlier, from the date of purchase of plot, without resorting to penal interest. Please note that there is no exclusive scheme for purchase of plot under home loan product and provision of plot is a part of home loan project. As such, only a reasonable part of the total home loan eligibility should be sanctioned /

disbursed for purchase of plot, keeping margin for construction of house over the plot. When the loan is considered for purchase of a plot to construct the house, the branch should obtain a suitable undertaking from the borrower to this effect. Since the compliance of the undertaking rests with the borrower, Branches are required to incorporate suitable covenants in the loan documents at the time of sanction, to enable them to recall the loan and / or charge higher rate of interest, ab initio, in the event of non-compliance by the borrower with his undertaking. In this background, for the benefit of the branches, we would like to clarify the issue as under:

In case the borrower fails to construct the house within a period of three years from the ailment of the said finance:

- Branch to charge commercial rate of interest (PLR / BPLR plus maximum band declared by the Bank) from the date of first disbursement.
- Branch to recall the loan and recover total loan with revised interest.
- Repayment of the loan already availed from any other Bank / Housing Finance Company and / or other sources, provided documentary evidences are produced.

3.11.3.2 Eligibility for applying home loan

- All individuals singly or jointly.
- Principal applicant must be employed minimum for last three years.
- Minimum age must be 21 years. However, the minimum age of co-borrower can be 18 years. Age of the borrower plus repayment period should not be beyond retirement age in case of salaried persons and 65 years in case of others.
- Person who already owns a house can also be considered for construction / buying a second house / flat in the same village / town / city or other village / town for the purpose of self-occupation.
- Normally Housing Loan is to be considered only for purchase / construction of one house / flat. However, looking to the size of the family, income eligibility

and repayment capacity of the applicant, Housing Loan can be considered for purchase of two flats / two houses also, provided both the flats / houses are adjacent or in the same place (city / town / village) and acquired for self occupation.

- Person who has been provided accommodation by his / her employer is also eligible for loan, even though he / she is not in a position to occupy it in the near future and proposes to let out on rental basis.
- Housing loan to HUF is not to be considered as it is not meant for the purpose of family business of HUF and also there are certain legal complications.
- In the case of individuals who have taken loan for construction / acquisition of house / flat from other bank / HFC and need supplementary finance, loan may be considered to high class borrowers after obtaining pari passu or second charge over the property mortgaged in favour of other bank / HFC and / or against such other security as deemed appropriate.

3.11.3.3 Income Criteria for Determining the Loan Amount

The maximum amount of loan should not exceed the following:

a) In Case of Salaried Persons:

Monthly Income	Eligible Amount of Loan
Up to ₹ 20, 000	36 times of monthly gross income
More than ₹ 20, 000 and Up to ₹ 1,00,000	48 times of monthly gross income
More than ₹ 1,00,000	54 times of monthly gross income

- a. In case of others viz. professionals / self-employed / business / persons etc., 5-times of average annual income (last three years). (Depreciation allowed hitherto is not to be considered for computing eligible loan amount). However, bank should verified income tax return of applicant, co-applicant and guarantor from income tax department and verified CIBIL score of every person for their credit history. After verifying income tax return and CIBIL score, bank should further process for home loan.

- b. Wherever income of the family members is clubbed, they should be made co-borrowers.
- c. Considering the average life expectancy of about 65 years, the pension income is not to be included in the income for calculating the eligible loan amount.

3.11.3.4 Repaying Capacity

i. In Case of Salaried Persons: Monthly Income Total Deductions not to exceed (Including proposed EMI)

Monthly Income	Total Deductions not to exceed (including proposed EMI)
Up to ` 20,000	40%
More than ` 20,000 and up to ` 50,000	50%
Above ` 50,000 and up to ` 1,00,000	60%
Above ` 1,00,000	60%

ii. In Case of Others

Annual Income Total Deductions not to exceed (including proposed EMI)

Annual Income	Total Deductions not to exceed (including proposed EMI)
Up to ` 2.4 lakhs	50%
Above ` 2.4 lakhs & upto Rs12 Lakhs	60%
Above ` 12 lakhs	70%

However, higher repayment capacity may be considered by taking into account age, income, qualification, number of dependents, assets, liabilities stability / continuity of employment / business of the applicant and the co-applicant's income.

3.11.3.5 Margin

Margin stipulation on purchase of plot / flat / readymade house (including registration charges, cost of stamp etc.) and on cost of construction:

For Salaried Persons

Monthly Income	Purpose	Margin
Up to ` 20,000	Purchase of plot	20%
	House/flat already constructed from own resources	25%
	All other cases	20%
Above ` 20,000	Purchase of plot	20%
	House/flat already constructed from own resources	20%
	All other cases	15%

For Others

- i. For purchase of plot - 20%
- ii. For houses / flats already constructed from own resources and loan is taken subsequently, 20% of the cost of construction / purchase price of house / flat.
- iii. For all other cases 15%
- iv. For the purpose of finance, least of the value assessed by Bank's approved valuer on a realistic basis at the current market value / cost of construction / agreement value and other legal charges viz. stamp duty, registration charges, legal expenses etc. should be considered.

3.11.3.6 Security for Home Loan

- i. Mortgage of the property constructed / purchased.
- ii. If mortgage is not feasible, branch can accept, at its discretion, security of adequate value in the form of life insurance policies, Government Promissory Notes, shares and debentures, gold ornaments or such other security as may be deemed adequate including third party guarantee from individuals with the prior permission of Regional Head.
- iii. Even if it is possible to create equitable mortgage, but customer desires that the equitable mortgage need not be insisted upon, in such a case branch may as a special case, accept at its discretion, security of adequate value in the form of life insurance policies, Government Promissory Notes, shares and debentures, gold ornaments or such other security as may be deemed adequate with the prior permission of Regional Head, along with stamped undertaking that the borrower

shall not create any charge on the said property to any third party and that he will create mortgage of the dwelling units / housing property at a later date if desired by the bank, be obtained from the borrower. Margin on above securities is to be maintained as per extant guidelines applicable for financing against those securities.

iv. In cases where procedure for execution of sale deed / conveyance deed , forming a co-operative society and issuance of share certificate takes a very long time and as such there are practical difficulties in creating equitable mortgage at the time of sanction of housing loan for flats developed by builders / developers following procedure may be adopted : Create equitable mortgage by obtaining following documents duly supported with the advocate’s search report and opinion on title of the land as also on the agreement to sale.

- Original agreement to sale executed by builder in favour of borrower, duly stamped and registered.
- Index – II Property Card
- Original Receipt in respect of registration of “Agreement to sell”.
- Copy of the map of the building duly approved by the appropriate authority.
- NOC from builder for creating mortgage and noting of Bank’s lien if the building is under construction.
- Share Certificate, if society is formed, duly supported with NOC from the society for creation of mortgage and noting of banks lien in society’s record.
- Possession letter in original.

As regard stamp duty, the same is to be paid as applicable on Memorandum of Deposit of Title Deed.

3.11.3.7 Rate of Interest

Bank has both the options of interest rate, i.e. Fixed and Floating and borrower can avail any of the option as per his choice, however, fixed rate option is subject to reset clause after every 3 years. Floating interest rates are linked with BPLR and subject to stipulation of minimum interest rate clause. The minimum interest rate would be the rate applicable as on date of sanction.

- Fixed rate option is not available for loans up to ` 2 Lakhs.
- “Floating rate of interest will undergo change as and when Bank will revise floating rate or BPLR” in the sanction letters issued to the borrowers who opt for floating interest rate option.
- For the purpose of deciding rate of interest, tenure should be arrived at by adding moratorium period to the number of EMIs.
- An option of Flexi interest rate providing therein part of the loan under fixed and part of the loan under floating rate option.

3.11.3.8 Risk Rating

All home loan applications are subject to CRISIL Risk rating Total marks are 168 and the cutoff is set at 96. The details of the various ‘Rating Parameters and risk rating model’ are given here. Bank of Baroda takes the decision regarding whether the loan is sanctioned or not.

‘Rating Parameters and risk rating model’

Table 3.2 Rating Parameters for Housing Loans

Sr. No.	Variable	Score	Max	Min
1	Borrower Age (in Year)		5	0
	(a) 0 – 8	0		
	(b) Above 18 – upto 25	1		
	(c) Above 25 – upto 40	4		
	(d) Above 40 – upto 50	5		
	(e) More than 50	0		
2	Education Qualifications		5	0
	(a) Doctorate/Post Graduate	5		
	(b) Graduate	3		
	(c) Diploma	2		
	(d) Higher Secondary	1		
	(e) Less than Higher Secondary	0		

Sr. No.	Variable	Score	Max	Min
3	Marital Status (a) Married (b) Single	12 3	12	3
4	Mobility of Individual - Location (a) Has not changed location in past 3 years (b) Changed location once in past 3 years (c) Changed location more than once in past 3 years	10 3 0	10	0
5	Number of dependents (a) Zero (b) One (c) Two (d) More than two	8 5 2 0	8	0
6	Number of join applicants (a) 0 (b) 1 (c) 2 or more	0 5 9	9	0
7	Relationship with bank (a) All banking done through bank (b) Good track record of banking with bank (c) Short term relationship (d) No existing relationship	14 12 3 -4	14	-4
8	Employer type (a) Govt./Public sector (b) MNC (c) Listed private sector companies (d) Professional (e) Unlisted private companies (f) Own business (g) Self Employed (h) Pensioner drawing pension through Bank of Baroda (i) Pensioner drawing pension from others (j) Others	9 9 9 4 8 2 2 0 0 0	9	0

Sr. No.	Variable	Score	Max	Min
9	Designation (a) Senior Management (b) Middle Management or Self employed (c) Junior/Clerical/Pensioners	5 3 0	5	0
10	Stability of Income (a) Income has been steadily increasing over the last 3 years (b) Income has been almost the same over the last 3 years (c) Income has been unstable over the last 3 years (d) Income has been steadily decreasing over the last 3 years	12 7 0 -5	12	-5
11	Proof of Income of borrower (a) Income tax returns (b) Salary slip (c) Letterhead (d) No proof	3 3 1 0	3	0
12	Marketability of property (Marketability will increase if significant developments are happening in nearby areas, also it will depend on the condition of the property etc.) (a) Very good (b) Good (c) Fair (d) Poor	15 10 5 -8	15	-8
13	Housing loan purpose category (a) Construction (New) (b) Purchase (Old construction) (c) Improvement (d) Foreclosure (for borrowers who borrow in order to repay a previous housing loan) (e) Loan given under the rural housing scheme	4 0 8 8 2	8	0

Sr. No.	Variable	Score	Max	Min
14	Loan to value ratio (a) Less than 0.5 (b) 0.5 – 0.7 (c) Above 0.7 – upto 0.9 (d) More than 0.9	18 12 7 0	18	0
15	Net worth to loan ratio (a) 0 – 0.5 (b) Above 0.5 – upto 0.75 (c) Above 0.75 – upto 1.0 (d) Above 1.0 – upto 1.5 (e) Above 1.5 – upto 2.5 (f) More than 2.5	0 1 2 3 4 5	5	0
16	Net annual income of the borrower (in `) (a) Less than 1,00,000 (b) 1,00,000 – 2,00,000 (c) Above 2,00,000 – upto 3,50,000 (d) Above 3,50,000 – upto 6,00,000 (e) More than 6,00,000	-5 2 4 6 10	10	-5
17	Fixed obligations to income ratio (a) 0 -0.3 (b) Above 0.3 – upto 0.5 (c) Above 0.5 – upto 0.7 (d) More than 0.7	12 8 4 0	12	0
18	Guarantor's net worth to loan ratio (a) 0 – 0.5 (b) Above 0.5 – upto 1 (c) More than 1	-4 4 8	8	-4
	Sum		168	-23

3.11.3.9 Documentation

Following documents are to be obtained:

- Term loan agreement
- General form of Guarantee wherever third party guarantee is stipulated.
- Usual procedure for creation of equitable mortgage / registered mortgage of the immovable property being financed.
- Document required to be obtained for recovery as per State Recovery Act. In order to ensure that panel advocate incorporates all vital points in his report relating to the property offered as security such as non-encumbrance, marketability and title of the property, the branches are advised to send letters to Advocates as per model draft while seeking his / her opinion. Reports which do not contain the information on the points mentioned in the branch letter must not be accepted.

3.11.3.10 Repayment Period

- Maximum 25 years including moratorium period. Loan to be repaid in monthly equated installments except in case of farmers where the loan is proposed to be repaid in half yearly installments coinciding with harvesting/marketing of major crops produced.
- Moratorium period maximum 18 months or one month after completion of house / taking possession of flat / house whichever is earlier.
- Present age of the borrower plus repayment period should not be beyond retirement age in case of salaried persons and beyond 65 years in case of others.
- The repayment period can be extended up to 65 years of the age in case of salaried persons drawing pension subject to the condition that 40% of the pension is sufficient to pay EMI. In case EMI exceeds 40% of the pension, the borrower to deposit adequate amount in the loan account so as to reduce the outstanding amount of loan to the extent it can be serviced by 40% of the pension.
- In exceptional cases, this term may be extended beyond above age limit if borrower pledges FDRs / NSCs / Govt. Security etc. of adequate value to ensure continuity of income for repayment of loan installment with interest if sanctioning authority is satisfied about the same.

3.11.3.11 Equated Monthly Installment (EMI) Plan

- i.** The recovery under EMI provides for repayment of dues uniformly throughout the loan period. The following accounting procedure may be followed in this regard:
 - a . At the time of granting loan, EMI should be calculated as per chart
 - b. The EMI should be in figures rounded off to next higher rupee.

- ii. Accounting & interest application**
 - a. The monthly recovery under EMI shall be credited in full to the loan account.
 - b. At the time of monthly interest application, interest is to be calculated on daily products basis and debited to the loan account. In effect, this would result in application of interest on daily product basis at monthly rests.

- iii. Change in Interest Rates (Under floating Rate Option)**
 - a. As interest rates on Housing Loans are linked to Benchmark Prime Lending Rate (BPLR) the ultimate rate would, therefore, undergo change as and when Bank will revise floating rate or BPLR. Accordingly, whenever rate of interest is changed, the EMI also would need to be modified.

- iv. Recovery of interest for the pre-EMI period**
 - a. Interest charged during the pre-EMI period is to be recovered as and when debited, before commencement of recovery by EMI.
 - b. For any reason, if the borrower is not in a position to repay the interest as and when charged in one lump sum, the same may be recovered within 2 months, by charging overdue interest as and where applicable, as per rules / extant guidelines.

- v. Issuance of Interest Certificate**

For the purpose of income tax, branches may issue certificate to the borrower for interest debited during the year to the Housing Loan account, being interest actually accrued on loan account.

3.11.3.12 Disbursement of Loan

- i. In case of outright purchase of house / flat ready for possession – Disbursement be made in one installment directly to the seller of the house / flat.
- ii. In case of construction of house / flat – In 3 to 4 stages after physical verification, depending on the progress of construction. Payment can be made either to the builder directly or to the borrower subject to verification of bills/money receipts/invoices etc or certificate issued by approved valuer / architect certifying the progress of the work and the estimated expenditure having incurred there for, as the case may be. During the course of construction at least once valuation report from Bank’s approved/ Govt. valuer must be obtained.
- iii. To safeguard banks’ interest and as a preventive vigilance measure branches should adhere to the guidelines given hereunder:
 - Upon receipt of quotation / agreement the branch should obtain in writing the name of the Bank and Branch from the builder / vendor for the purpose of issuing Banker Cheque / Demand Draft pertaining to the disbursement.
 - To obtain request letter from borrower for making the payment to the builder.
 - To issue Demand Draft / Bankers Cheques in favour of Bank / Branch, A/c- No., Name of Builders / Vendors / Suppliers alongwith a letter addressed to the vendor.
 - Not to hand over the Demand Draft / Bankers Cheque towards disbursement to the borrower.

3.11.3.13 Unified Processing Charges

Only unified processing charges (which includes processing charges, documentation charges, document verification charges and pre & one time post sanction inspection charges) to be levied as detailed below:

Loans upto ` 20 lakhs	0.35% of loan amount.
Loans above ` 20 lakhs	0.40% of loan amount.
Maximum	` 15,000

In case of takeover of Home loan: 0.10% maximum ` 5,000.

(Unified Processing charges recovered, should be credited to ‘P/L Comm. Earned – Service charge A/c’).

3.11.3.14 Insurance of the House Property & Personal Accident Insurance of the Borrower

The house mortgaged with the Bank is to be insured. As a value proposition the premium is to be borne by the Bank. Bank have an arrangement of free insurance cover in the name of “Baroda Home Loan Suraksha Bima Yojana” for house property mortgaged with the Bank and also accidental death insurance cover with the National Insurance Company limited, who are our partner of Bancassurance business.

Life Insurance cover to Home Loan Borrowers

Life insurance cover available to home loan borrowers under Group Mortgage Redemption Assurance scheme of LIC of India called Baroda Jeevan Griha Suraksha and home loans sanctioned / disbursed on or after 01.01.2010 will be covered under tie-up arrangement with Kotak Life Insurance.

3.11.3.15 Inspection of House Property

i. Pre-sanction inspection is to be carried out

- To ascertain the correctness of various facts and data submitted by an applicant.
- To verify the credentials and antecedents of the applicant.
- To verify the house/flat proposed to be purchased / constructed with the bank finance.
- To do careful analysis of information collected during pre sanction inspection to arrive at a credit decision.
- In short the above activities form the due diligence process in appraising the applications for loans.
- Detailed Pre-sanction inspection including visit to the place of residence, work / business place as well as property to be purchased, must be carried out preferably without giving prior information to the applicant. Pre-sanction inspection report should be prepared in the format prescribed and kept on record.

- During Pre-sanction inspection, the branch official must cross verify the information submitted by the applicant with respect to his identity, residence, employment / business and property to be purchased.

No separate charge be levied as pre sanction is part of processing.

ii. Post –Sanction Activities

- To verify the end use of funds after each disbursement of the loan by physically verifying the assets created out of bank finance,
- After completion of the house/dwelling unit, inspection be carried out at least once in 3 years if the account is regular. If this condition is not fulfilled, regular inspections are to be carried out as per administrative guidelines for inspection of other advances accounts.
- For quick and immediate detection of misutilisation of bank's loan, if any and to immediately take corrective steps.
- Inspection reports for each inspection are to be kept on record.
` 100/- plus service tax per inspection may be recovered for carrying out post-sanction inspection.

3.11.4 Conversion from Fixed Interest Rate to Fluctuating Interest Rate Option

Requests from customers may be considered for allowing conversion from fixed Interest rate to fluctuating interest rate option by Branch Manager with prospective effect subject to the following:

- if the account is regular
- as one time offer from the Bank.
- upfront payment of charges on outstanding balance @ 0.5% for every year forth residual period of the loan maximum 2% of the amount outstanding on the date of allowing conversion.

3.11.5 Change of Tenure

Borrowers may be permitted to reduce the tenure of the loans subject to the following conditions:

- i. This option can only be exercised by those borrowers who have availed home loans under tenure-based rate of interest.
- ii. Upfront payment of charges @ 0.20% p.a. on the outstanding amount of loan for the residual period of the loan as per new repayment schedule i.e. after considering reduction in the tenure (0.20% x Balance outstanding i.e. 10/- Lakhs x residual period of loan i.e. 9 years). However, vice-versa i.e. change from lower tenure to higher tenure is not possible.
- iii. There should not be any overdue in the account.
- iv. The new repayment schedule should be duly supported by repaying capacity of the borrower.
- v. A written request is to be obtained from the borrower.
- vi. The decision of the Bank to be conveyed in writing to the borrower and also the guarantor, if any, and their acknowledgement be obtained. This letter along with the request letter of the borrower should be kept with the documents.
- vii. New tenure for deciding revised rate of interest will be the period of loan already lapsed plus the remaining period in which customer wants to repay the entire loan. The new tenure in the above-cited example will be ten years (period already elapsed i.e. 1 year plus residual period i.e. 9 years) and accordingly revised rate of interest is to be levied from the date of Bank's decision to reduce the tenure.

Bank of Baroda Home Loans Services

The home loans products and services by Bank of Baroda cover:

- Loans for purchase of a new house
- Loan for financing an old house
- Loans for purchasing a plot
- Repayment of loans from other housing finance companies

To help customer with any financial requirement for a ready-to-move-in property, under construction property or any repayment issues. The loan sanctioned can be upto ₹ 100 lakhs with a flexible repayment period of 25 years.

BOB Home Loan Advantage

Along with providing finance for dream home, Bank of Baroda also gives additional benefits with each housing loan product to the customers like:

- **Free Property Insurance and Personal Accident Insurance** during the stipulated tenure of loan.
- No processing charges for housing loans taken over from other Banks/Institutions.
- **Free Credit Card** - "PARAS" card (Complimentary for first year) to all new home loan borrowers with loan limit of ₹ 2 lakhs and above
- **Free Personal Accident Coverage** up to ₹ 2 lakhs Under "PARAS" credit card Advance up to 90% of the principal amount of home loan repaid for any requirement ('AAA').

As per current IT provisions - Interest on loan upto ₹ 1.5 lakhs per annum is exempt from income tax (Under section 24(b) of the Income Tax Act)

3.12 Profile of The Surat People's Co-Operative Bank Ltd.

There are many co-operative banks functioning in Surat city. Among them The Surat People's Co-operative Bank is the largest co-operative bank in Surat city. So, I have selected this bank for research study. I have collected the data from annual reports of the bank, bank officers and website of the bank.

3.12.1 History

With the advent of the 20th century, Co-operative Movement started in India. Late Rao Saheb Vrundavan Jadav a visionary dreamt of establishing Co-operative Bank. This Dream turned into reality in the name of The Surat People's Co-operative Bank Ltd.

The Surat People's Co-operative Bank Ltd. was established in 1922 in Surat. The Bank was registered on 10th March, 1922 and started functioning from 21st April, 1922. The Bank was first registered as Urban Co-Operative Bank in India and became Scheduled Bank on 1st September, 1988.⁷

The Bank has been servicing for last 89 years to the people of Surat. The bank is having network of 24 branches, 22 in Surat and 1 branch at Vapi and 1 branch at Navsari.

Strengths

- The Bank is the "First Registered Urban Co-operative Bank" of India.
- All Branches Connected with Core Banking System.
- Among the first 13 Co-operative Banks in September 1988 to get the "Scheduled Bank" Status.
- The Bank commenced "Total Branch Automation" in 1992-93.
- The Bank introduced "SMS Banking Facility" and "View Account Terminal" (VAT) facility at all its branches for better customer service.
- Bank started its own "Training Centre" for providing training to its employees.
- The first bank to provide the "Depository Participant Services" in South Gujarat.
- The only co-operative bank of South Gujarat to have direct connectivity to RBI server for RTGS / NEFT facility.
- The only bank to have direct connectivity with RBI server to have NECS facility.
- The only bank to give RTGS / NEFT facility on STP basis - straight through processing.

3.12.2 Different Types of Loan and their Interest Rates

Surat People's Bank provides the different types of loan to the customer. Following table give the details of deferent types of loan and interest rate attach with loan amount.

⁷ www.spb.com

Table 3.3 Different Types of Loan and their Interest Rates**(April 2011)**

Loan Type	Limitation	Upto ` 1 Lakh	Upto ` 5 Lakhs	Upto ` 50 Lakhs	Above ` 50 Lakhs
Housing Loan	upto 66 months	10.50	10.50	10.50	10.50
Housing Loan	Upto 10 yrs	11	11	11	11
Housing Loan	15 Yrs	11.50	11.50	11.50	11.50
Consumer Durables		14	14	14	14
Personal Loan	Against Property	15	15	15	15
Personal Loan	Travel	13	13	13	13
Vehicle Loan	2 - 3 wheeler	13	13	13	13
Vehicle Loan	4 wheeler	13	13	13	13
Cash Credit	CC	12.50	12.50	12.50	12.50
Mortgage / HP	OD	14.50	14.50	14.50	14.50
Machinery Loan	TUF	12.50	12.50	12.50	12
Bill Discounting	Letter of Credit	12	12	12	12
Bill Discounting	Simple	15	15	15	15
Cash Purchase Credit Sales		11	11	11	11
Self Employment		10.50	10.50	10.50	10.50
Loan / OD Against Govt. Securities		11	11	11	11
Education Loan	Boy	10.50	10.50	10.50	10.50
Education Loan	Girl	13	13	13	13
Loan Against Shares		14.5	14.5	14.5	14.5
Project Finance		13.5	13.5	13.5	13.5

Source: SPB, Surat.

3.12.3 Other Services Provided by the Surat People's Co-Op Bank

Bank is also providing the other services to the customers as are follows:

- Safe Deposit Lockers
- Depository Service
- ATM Service
- SMS banking Services
- VAT (View Account Terminal) Services
- Demand Draft & Pay Orders
- Any Branch Banking
- General Insurance
- Foreign Exchange

3.12.4 Home Loan Procedure in The Surat People's Co-operative Bank Ltd.

Submission of Application Form

A customer submits the application form to bank alongwith other relevant documents as required. They (Banks' staff) comprise documents to establish income, age, residence, employment, investments, etc. The customer also needs to hand over a photo copy of property paper at the time of submission of application form.

Validation of the Information

In the next stage, bank validates the information provided by the customer on the application form. They usually conduct checks on the residential address of the customer, the place of employment of the customer, and credentials of the employer. Sometime, bank may ask for credit report from the other banks if customer had taken loan in the past from other bank. Bank may insist on a personal interview with the customer and perform a reference check on the references provided by the customer on the application form.

Issue of Sanction Letter

After due appraisal of customer profile, bank calls the applicant for interview in board of director meeting. In this meeting, if directors of the bank and the manager of bank are satisfied then only a sanction letter is issued which contains details such as loan amount, rate of interest, annual / monthly reducing balance, tenor of the loan, mode of repayment and general terms and conditions of the loan. This, actually, is the approval of the money lending procedure by the bank. However, the loan amount is disbursed only

after the documents and the property on behalf of which the loan is being granted are thoroughly verified.

Submission of Documents

Once the sanction letter is authorised, the customer is required to leave the entire set of original documents pertaining to the property being purchased with the bank as security for the loan amount sanctioned. These documents remain in the custody of the bank till the time the loan is fully repaid. Once the documents are handed over to the bank, they send all the documents for a thorough legal scrutiny. During this time, the applicant has to pay for processing fees, insurance premium of property and banks shares.

Validation of Property

Prior to disbursement, the bank also conducts a site visit to the customer's property to ensure that all construction norms have been adhered to properly. Once the bank is satisfied that the property is legally and technically clear, they disburse the loan amount. The disbursement from the bank is on the basis of the stage of construction of the property if customer is constructed property.

Payment Procedure

Once all the above mentioned process, the borrower is entitled to take the money from the lender party. Until such time that the entire sanctioned amount is not drawn, the customer is supposed to pay a simple interest on the Actual Amount drawn. The EMI payments commences only after the entire sanctioned loan amount is drawn.

3.12.5 Vasudhara Awas Yojna (Home Loan)

Vasudhara Awas Yojna (Home Loan) is for purchase / construction of flat / bungalow / house. The bank's home loan is available on competitive interest rate. This home loan is available for 5 to 15 years. So, the customer may select his home loan period and also can plan for easy installments.

3.12.5.1 Purposes for which this Loan is given are

- Purchase / Construction of property.
- Extension / Renovation / Repairing of house or flat owned by the customer.
- Take - over existing housing loan

3.12.5.2 The Main Features of this Scheme are as follows

- Long term housing loan (5 to 15 years)
- Margin 20%
- Easy Process
- Interest charged on actual reducing balance
- No hidden charges
- Nominal processing charges
- No prepayment penalty
- Interest charged on daily product bases.

3.12.5.3 Margins: 20% Margin for Home Loan

3.12.5.4 Interest Rates as Implemented on: 01/04/2011

Period	Interest Rates (in %)
Up to 5 Years	10.5
Up to 10 Years	11.0
Up to 15 Years	11.5

3.12.5.5 Eligibility and Repayment

The customer must be at least 21 years of age when the loan is sanctioned.

Repayment

Repayment of loan in easy installments is spread up to 15 years. (Based on the age and repaying capacity of the customer). The customer may pay more than stipulated monthly installment at any date within a month, depending upon availability of funds with the customer. This would enable the customer to pay off his/her loan faster and reduce his / her interest burden. No prepayment penalty is levied by bank.

3.12.5.6 Takeover of Loan

If the customer has already taken a housing loan from any other bank and want to avail of the benefit of the Bank's low rates of interest, the bank can take over the loan he/she has have availed from the other financial institution.

3.12.5.7 Documentation and Income Proof

Required Documents for Assets

For Purchase

- Allotment Letter, Other proof for purchase / construction

For Construction

- Approved Plan, Approval Letter, Construction Cost Estimate, Necessary proof of assets.

Income proof

If the applicant has his / her own business then

- IT Returns of the last three years, Profit and Loss Ledger, Balance Sheet and Property Ledger, Copy of Computation of income tax, Tax acknowledgement and Assessment order. (If the customer is eligible for income tax)

For Employee

- Last Pay-Slip / Salary Certificate / Copy of form no. 16.
- Copy of Salary Certificate of whole year.
- If Public Provident Fund is being deducted from the customer's salary then a copy of the same.

Proof of Business

- Registration of business certificate (Gumasta Dhara License) / or copy of Sales tax number.

Residence Proof

- Copy of City Survey or Tax bill of customer existing house / Rent Receipt / Ration Card / Driving License

Additional Information Required for “Guarantee”

- Details of L.I.C policy with receipt.
- N.S.C / K.V.P / Term Deposits of our Bank.

Information of Bank Account

- Bank statement of the last 6 months or passbook having the records of the last six months.

One Guarantor

- Proof of the assets of the guarantor, Copy of city survey or Share certificate, Copy of 7 / 12, Tax-bill and receipt
- Proof of Income.

The following other documents are needed for Title Investigation:-

- a. Duly stamped Agreement for sale with builder / society in case of first sale.
- b. Duly stamped Agreement for resale with the present owner including all previous intervening Agreement.
- c. Conveyance Deed in favor of the builder / society (in case of the builder, if there is no conveyance, then the Agreement to sell land and the development Agreement).
- d. Transfer form executed by the present owner in case of society.
- e. Receipt of Registration fees (filing fees) issued by the Sub-Registrar of Assurances in respect of Agreement for Sale / Re-Sale / Conveyance Deed.
 - i) N.O.C. from the builder for the proposed mortgage. OR
 - ii) N.O.C from the Society for the proposed mortgage.
- f. Commencement Certificate / Development permission granted by the Competent Authority (viz. Municipal Corporation / Gram Panchayat as the case may be of the concerned area) for constructing the building.

- g. Approved building plan (approved by the Competent authority), Municipal Corporation / Council or Gram Panchayat as the case may be of the concerned area.
- h. Occupation / Completion Certificate granted by the Competent authority (viz. Municipal Corporation / Council or Gram Panchayat as the case may be, of the concerned area) in respect of the building.
- i. Title Report / certificate from the Solicitor / Advocate of the builders / sellers regarding the said property.
- j. Valuation report from approved valuer.
 - Share Certificate in the name of (applicant) issued by the Co-operative Housing Society (After the applicant becomes a member)
 - Letter of Possession
 - Original receipt of payment
 - Any other document / certificates needed as per requirement

After discussing importance, types, basic process, calculation of EMI and interest rate, home insurance, etc. the next chapter deals with the Data Analysis and Interpretation.