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IMPACT ON HOUSE LOAN ON THE IMPROVEMENT IN LENDING PRATICES AMONG BANKS

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ABSTRACT

Bank Lending strategy is a description of its way of thinking, criteria, and norms that its representatives must see in conceding or denying a loan request. These rules figure out which retail or corporate consumers the business banks affirmed for loans and which will be avoided, and should be established on the bank lending regulations and standards. The banking industry assumes a notable duty in economic growth and improvement via arrangement of credit to execute economic activities. Be that as it may, the true concern of any lender when extending credit is the manner they will reclaim their cash. Credit hazard emerges from the possibility that borrowers may fail on terms of obligation, thusly encouraging increased volumes of non-performing loans. This concern has come about into a few initiatives to deal with the growing amounts of NPLs. Banking industry has done miracles for the international economy. The easy seeming strategy for tolerating cash deposits from savers and thereafter lending comparable sums to borrowers, banking movement stimulates the passage of funds to productive utilization and investments. This therefore permits the economy to flourish. In the absence of banking business, reserve money would lie inactive in our homes, the business visionaries would not be in a condition to collect the cash, common persons wishing for another vehicle or house would not have the alternative to acquire vehicles or residences.

INTRODUCTON

Humanity's fundamental requirements are food, clothing, and shelter. Housing isn't simply a need, but it also provides a decent foundation for the advancement of the individual's economic standing and lifestyle. More and more people are moving from rural areas to metropolitan areas for work, and this has led to an increase in the demand for housing. People's desire to buy a home has expanded dramatically as a result of their rising economic and social standing, all in the context of rapid urbanisation and fluctuating financial conditions. The purchase of a home is often the most significant financial decision a person makes in his or her life. As a result, a residence that has a strong emotional component is more secure for lenders. Most borrowers have substantial amounts of their own money invested in a home, which contributes to the security of the loan [1].

In the development industry of unorganised division, housing finance provides employment opportunities for a great number of persons who are skilled, semi-talented, and untalented. It also delivers a tremendous boost to the commercial opportunities of those who provide various forms of development supplies. When compared to other forms of financing, the repayment of a home loan is a pleasant experience. According to their ability to repay, most commercial banks and development banks provide a broad range of assets. Our country has seen tremendous growth in this area, which acts as a driver for economic growth. The financing of housing has evolved into a revolutionary economic growth strategy.

The name "House" has a broader connotation than just an asylum because of the crucial role it played in shaping the way of life of the person and the public's ultimate destiny. An average man's greatest ambition in life is to own his own home, and he will spend a significant amount of money to do so.

In the past, many people in India's administration relied on their post-retirement savings and severance pay to purchase a house. There are a wide variety of housing options to choose from. In today's market, those looking to buy a property have not just a wide range of interest rates to choose from, but also a wide range of financing options, including anything from a simple mortgage to a home equity loan, an expansion loan, and even an NRI loan. Until now, there has never been anything quite like it. There has been a dramatic increase in the likelihood of retail customers being able to acquire financing during the last five years. Numerous NHB (National Housing Board) recognised housing finance companies dot India's map with their indelible imprints. With a vast network of branches around the country, driving financial organisations like HDFC and ICICI are also able to provide home loans to customers. Developing the home financing market is a two-pronged policy challenge. Individuals need reasonable financial plans for the construction and acquisition of an abode; frequently an exorbitant endeavour with respect to a person's pay, expanding the accessibility to such financing is a significant goal of a social policy that expects the basic needs of the populace to be met by the market-based economy's housing policy.

During the last decade of economic change, the government has taken on the role of housing provider for its citizens, something they had previously done in the past. In India, the process of selling off private residences has recently been completed. In spite of this, a private sector for the building and sale of dwellings has yet to be established. For the Indian economy alone, the expansion of the housing sector and housing financing would have a multiplier effect.

Through the allocation of credit for economic activities, lending institutions play a significant role in economic growth and development. In spite of this, bankers' primary concern when extending credit is how they will recoup their funds, implying that the relationship between lenders and borrowers is fraught with danger. It is not uncommon for lending businesses to look at a wide range of risks, including market risk, operational and execution and credit risk. The degree to which each kind of risk is posed depends much on how the lending institution chooses to conduct its business. To put it another way, credit risk is when a bank's advantage portfolio is downgraded due to an obligor's inability to make his instalment payments on time. Through a risk 2 premium that fluctuates depending on the likelihood of default, high viable getting rates are prompted. Banks incur costs to carefully analyse and closely manage risk, especially when it's high [3]. This is because of the possibility of default.

Lending should be done effectively by commercial banks since it is the cornerstone of good economic growth.. Developing and developing any economy relies heavily on the lending activity of commercial banks. Considering the obvious financial imbalance that is growing between the shortage and excess units, it is no surprise that loan becomes necessary. As a result, lending must be carefully considered in order to benefit the bank's whole pool of premiums, including investors, donors, and borrowers. According to Roy and Lewis (1991), one of the most important aspects of commercial banks that are legally associated with the growth of the economy is lending to praiseworthy borrowers. In the event that those loans or credit are not grown, the growth of the generating offices and activities would be almost impossible and would take a longer period of time to accomplish.

Commercial banks play a vital role in the flow of financial financing expenses through the system. They. However, the effectiveness of transmitting the decisions of the national banks is complex and may depend on several variables, including the amount of competition in the financial sector, perception of credit risk, risk aversion, and the availability of near substitutes for loans. Additionally, banks have the ability to affect the external financing premium by adjusting loan charges, the available maturity of loans, or the conditions for insurance. Finally, as shown by a broad range of literature on the bank lending channel, credit proportioning and borrowers' sensitivity to their creditworthiness may enormously affect banks' willingness to take risks. Evidence suggests that this particular risk-taking channel may play an important role in transmitting fiscal policy [4].

LITERATURE REVIEW

Owojori et al (2011) [5] in Nigeria, it was clear that the failure to collect loans and advances offered to customers was a key contributor to the agony of exchanged banks. Non-performing loans and rentals were 67% of an upset bank's total loans and rents at the height of the issue in 1995, when 60 of 115 operational banks were affected. As of December 2002, 35 banks had had their licences revoked because of the scandals they had been involved in. When the banking licences were revoked, several institutions had loan portfolios with a performance ratio of less than 10%. This study aims to analyse the importance of understanding the influence of lending policies on commercial banks' non-performing loan levels.

As per Amidu (2006), [6] In the bank credit channel, attention has been drawn to two difficulties in particular. For the most part, the debate revolved on whether some borrowers are so dependent on bank lending that their investment and spending decisions are affected by changes in banks' willingness to lend quickly. Another question is whether or whether changes in monetary policy compel banks to lend to borrowers. In order for bank lending to play a significant role in the financial transmission system, both of these prerequisites must be met. Banks' dependence on certain borrowers, especially small businesses, is supported by recent studies.

Chodechai, (2004) [7] A bank's security and adequacy depend on its ability to effectively manage its loan portfolio and lending capacity. A loan portfolio management (LPM) approach is used to monitor and control the inherent risks in the lending process. A thorough examination of the LPM method is a crucial supervisory task, given its importance. When evaluating LPM, it's important to look at how far bank management is willing to go in order to identify and manage risk throughout the credit application process. The focus of the assessment is on what management does to identify potential problems before they become problems.. To assist both analysts and bankers, this pamphlet discusses the elements of an effective LPM process. Even if individual loans have their own unique risk, it is possible that the danger contained in a group of loans is at least equal in importance.

Hirtle, (2008) [8] Loan portfolio management begins with monitoring the risk in individual loans. Choosing the right risk level is essential to ensuring the best possible loan quality. So the emphasis on regulating individual loan endorsements and the performance of loans continues to be crucial in this approach Improved innovation and data frameworks, on the other hand, have paved the path for more effective management strategies. Taking a more in-depth look at the loan portfolio will allow a portfolio manager to catch signals of rising risk before it becomes too late.

Gonzalez, (2010) [9] There must be an understanding of the risk posed by each credit and how that risk affects the whole portfolio of loans. Interrelationships may increase risk above and beyond what it would have been otherwise. Recently, few banks used modern portfolio management concepts to reduce credit risk.. Read more.. Currently, many banks see their loan portfolios as a whole, with links between individual parts, rather than as a collection of individual loans. With the help of these procedures, the bank's management gets a better picture of the bank's credit risk profile and additional tools for analysing and controlling that risk.

Statement of the problem

There is a lot of focus on housing finance in the banking sector right now. The national economy relies heavily on the work of housing financing companies. In spite of their rapid growth, the home financing institutions confront a number of challenges. In most cases, community groups put off approving new locations and plots for much too long. As a result, home builders believe it is difficult to get approval for their projects, which is a need for obtaining financing. There is always a scarcity of housing because of the growth of the human population. To carry out this strategy effectively, the government's enthusiasm for home building is insufficient [10]. The cost of building is rising as the cost of land continues to rise, as well as the cost of labour and materials. In addition, the lending institutions have raised their premiums.

The vast majority of those in need live in rural areas. They don't have a regular monthly income since the work opportunities in rural areas are less. Town residents can't imagine owning a property if they don't have any savings. There is a lack of interest in the property market from a large number of institutions. As a result, the annual interest on a loan is rather large, as the principal and interest payments are combined four times a year. Processing costs and other hidden fees are also included [11]. These are in direct conflict with their recent promotions. " Because of this, the majority of home financing institutions in India provide money to salaried individuals. Residents and non-standard income groups in the community believe that the house loan facility will be a loss-making venture for them. When it comes to earning from the home financing, it is important to consider the concerns of customers.

Scope of the study

This research aims to measure the customer service provided by commercial banks in the home financing sector. Customers will learn about the services provided by the home finance industry as well as the reasons that encourage them to take out mortgage loans. To achieve the goal of "Housing for All," it is expected that the findings of this inquiry will lead to recommendations for policy changes in the housing finance sector.

OBJECTIVES OF THE STUDY

- To realize the lending practices of banks in India.
- To study the effect of "size" on the efficiency of the Banks.
- To recommend the suitable measures to improve the efficiency of the banks.
- To know distinctive sort of loans favored by various arrangements of customers.

RESEARCH METHODOLOGY

Research design

Bank loan processes are analysed and client satisfaction levels are determined using descriptive research in this study. The survey and interview of experienced loan authorities was used.

Data collection

Both primary and secondary sources of information are gathered throughout the study. With the use of an interview schedule, we were able to properly obtain the main data from our respondents. Secondary information was gathered from books, diaries, and webpages.

Methodology and tool

There are many components to this section's technique, including information collecting, interview schedule building, data accumulation in an ANOVA table, and the framework for the examination.

Sampling design

Customer satisfaction with home financing in India is the focus of the study. Two commercial banks in the taluk provide house loans.

DATA ANALYSIS AND INTERPRETATION

Table 1: Preferences of the customers for the loans

Kind of Loan	No. of Respondent	Percentage (%)
House loan	16	32%
Personal loan	15	30%
Consumer loan	6	12%
Educational loan	8	16%
Vehicle loan	3	6%
Other	2	4%

Principles that guide in loan appraisal

The capacity to pay was cited as the most important aspect in loan administration by 69 percent of respondents, followed by the borrower's history (15 percent), the availability of sufficient security (10 percent), and the knowledge of the loanee (4 percent) [13].

Table 2: Lending principle

Principle of lending	Frequency	Percent
Repayment ability	22	69
Adequate security	4	10
Borrower history	5	14
Competitive pricing	1	3
Knowing the loanee	1	4
Total	**32**	**100**

Conclusion

According to the findings, the vast majority of those polled had been working in credit administration for their respective banks for more than eight years. Because most banks were locally owned, their lending practises reflected the specific demands of the communities in which they operated. Ability to pay and credit history were cited as the two most important considerations when making a loan. This is a great benefit to credit management since it helps guide the lending process and ensures that it is consistent across all of the banks in the bank network. Borrowers with doubtful character, high interest rates that make it difficult for some to pay, and the diversion of cash by borrowers from what they had meant to work on without being revealed to the lender are among the key factors that contribute to bad loans Borrowers' creditworthiness may be determined by lending rules. An further way to reduce risks is to protect your portfolio by halting the progression of loans to high-risk sectors [14].

Research shows that lending rules and non-performing loans are linked. Having lending rules in place helps the banks lend wisely and reduces their risk level. As a result, the amount of nonperforming loans has decreased as a result of strict adherence to lending standards. There is a strong correlation between lending to certain economic sectors and non-performing loans as the sector's size increases, according to a new research. Additionally, the survey found that thorough creditworthiness assessment, a list of problematic industries, and insurance services are all being used to lower non-performing loan levels.

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