

Legal Formalities Towards Housing Finance (A Case Study of Bob Housing Loan Facilities)

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Abstract

Man is a social being, which brings some amenities like food, clothing, and shelter is obligatory for his existence. Generally after food and clothing, shelter is an important yardstick for the existence of the human being. House is one of the basic needs of human beings and good housing is a primary requirement for development and welfare because it provides shelter, safekeeping, facilities and privacy to the human beings for decent living. Housing market has a noteworthy macro-economic impact. Housing activity has a direct impact on the level of employment and income of people in an economy in view of its large potential for employment. There are many things that we would find difficult, if not impossible to do without good-quality housing. Shortage of housing is a universal phenomenon. Housing finance is quite younger concept in the finance sector of India. It has developed rapidly during the last few decades due to the enthusiastic interest of Government to cut-short the housing problem of the country. India's housing finance industry mainly comprises banks and HFCs, SHGs and smaller institutions etc. Many banks have entered into the market of housing finance. Bank of Baroda (BOB) is one the well known bank is this field. Before 2007 the housing loan facility of BOB was operated by different finance company namely BOB housing finance limited but in 2007 it got merged with Bank of Baroda. This paper is concern with an analytical study of legal formalities of BOB. Paper will also represent the customer perception towards legal formalities of bank.

Keywords: *Housing, Finance, Housing Finance, BOB, Legal formalities.*

Introduction

Man is a social being, which brings some amenities like food, clothing, and shelter is obligatory for his existence. Generally after food and clothing, shelter is an important yardstick for the existence of the human being. House is one of the basic needs of human beings and good housing is a primary requirement for development and welfare because it provides shelter, safekeeping, facilities and privacy to the human beings for decent living. Housing market has a noteworthy macro-economic impact. Housing activity has a direct impact on the level of employment and income of people in an economy in view of its large potential for employment. There are many things that we would find difficult, if not impossible to do without good-quality housing. Shortage of housing is a universal phenomenon. Housing finance is quite younger concept in the finance sector of India. It has developed rapidly during the last few decades due to the enthusiastic interest of Government to cut-short the housing problem of the country. India's

housing finance industry mainly comprises banks and HFCs, SHGs and smaller institutions etc. Many banks have entered into the market of housing finance. Bank of Baroda (BOB) is one the well known bank in this field. Before 2007 the housing loan facility of BOB was operated by different finance company namely BOB housing finance limited but in 2007 it got merged with Bank of Baroda. Bank of Baroda (BOB) is an Indian state owned banking and financial services company headquartered in Vadodara (earlier known as Baroda) in Gujarat. It is second largest bank in India, and offers a range of banking products and financial services to corporate and retail customers through its branches and through its specialized subsidiaries and affiliates. It has been a long and eventful journey of almost a century across 25 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. To be a top ranking national bank of international standards committed to augmenting stake holder's value through concern, care and competence.

Review of Literature

Kumar Anand (2016) discussed about the impact of growth and development of housing finance on India economy in his research paper. On the basis of different studies he conclude that home loan investment shows impacts on the employment, GDP, productivity and many other important factors of a nation. Construction sector was found to have a significantly higher income and employment multiplier impact than most of other broad sectors of the economy. HFCs are facing more number of challenges in comparison with commercial banks and HFCs concentrate more on operational efficiency in order to survive. Therefore the housing sector contributes openly to overall invention and production activities of the economy and the benefits of shelter and wealth accumulation for households.

Mishra Ashok (2013) studied about the basic requirements for the acquisition home loan and growth of housing finance in India. According to him due to the increase in population, shift in demographic prototype and going up income of the middle class vis-à-vis the availability stock and shortage of shelter. In order to rectify this mismatch between demand and supply the government encouraged the housing finance institution and banks (public and private) for bridging the resource gap. Home loan is becoming a new area investment. The paper revealed the process of obtaining of home loan by different banks.

Parmar (2012) expressed her views about the condition of women in the field of housing finance. She observed that, due to over and unnecessary rules and regulation females were least interested in investment of funds in housing finance. The literacy rate of Women in India is not up to that level so that they can try to obtain the home loans even. She concludes that women in India are completely ignored in this area.

After the study of vast literature about housing finance researcher found that the current topic is new and untouched. And also observe that customers have many queries about the legal formalities of housing finance.

Objective of the study

1. To study and briefly describe the legal formalities of housing loan of BOB.
2. To know about the customer perception of BOB about home loan facilities.

Research Methodology

The current study is exploratory and descriptive in nature as it will show unfolded facts. For the analysis both type of data; primary and second research will be used. Primary data will collect with the help of interview of different customers of BOB. For interview purpose an open schedule questionnaire will be used. For the secondary data different types of journals, magazines and internet will be used by the researcher.

Legal Formalities Of Home Loan In BOB

Home loans are one of the easiest means of owning a house for the salaried class and small business persons. Home loans allow us to own a house without massive up front investments. Longer loan tenure, low interest rate and high loan amounts work in favor of home loans. All major banks offer home loan to its customers. The legal formalities to acquire home loan from BOB includes the following points:

➤ Features Of BOB Home Loan

Following are some of the reasons why we should choose home loan offered by BOB:

1. BOB offers different home loan products like normal home loan, home loan to NRIs and PIOs, home improvement, etc.
2. The repayment tenure depends on the age and income of the borrower.
3. The bank offers both fixed and floating rates of interest for its home loans.
4. The home loan will be linked to savings accounts which add to the advantage of home loan account. The interest loan is calculated based on daily outstanding balance in the savings account.
5. EMIs can be paid through the linked savings account and post dated cheques or other means of remittance are not required.
6. BOB home loans come with a complimentary personal accident insurance for specific periods.
7. Home loan customers also get a credit card complimentary for the first year, with a credit limit of Rs. 2 lakh.
8. Home loan customers get a discount of 0.25% in interest rate on car loans and 0.5% in interest rate for loan for consumer durables.
9. Customers can avail top-up on your home loan up to 5 times during the loan period. The minimum top-up loan amount is Rs. 1 lakh, while the maximum is either Rs. 2 crore or 75% of the residual value of the house after subtracting 150% of the outstanding loan amount, whichever is less.
10. There are no charges in case the customer wishes to pre-pay the loan in part or full.

➤ **Use Of Loan Amount**

BOB's home loan can be used for various home-related purposes such as:

1. Purchase of a newly constructed house
2. Purchase of an existing house
3. Purchase of a plot
4. Construction of a house
5. Home improvement and extension
6. Transfer of home loan from another bank

➤ **Documentation Needed To Apply for Bank of Baroda Home Loan:**

1. Signed application form with photograph
2. ID and residence Proof
3. Last 3 months bank statements
4. Latest Salary certificates/ Last 3 months salary-slips
5. Form 16/ income tax returns of last two years (if applicant is salaried)
6. Income tax returns for latest year (if applicant is self employed)

➤ **Eligibility**

To become eligible for home loan of BOB customer need to meet the following criteria:

1. Minimum age: 21 years
2. Maximum age: Salaried individuals should have at least 1 year of service pending.
3. Maximum repayment period: 30 years
4. Minimum salary details

Monthly Income	Loan Availability
Up to Rs. 20000	36 times of Monthly income
More than Rs. 20000 and up to Rs. 1 lakh	48 times of monthly income
More than Rs. 1 lakh	54 times of monthly income

➤ **Interest Rate Details**

The base rate fixed by BOB as on 1 July 2016 is 9.6%, which applicable to borrower before 1 April 2016. The interest rates for various BOB home loan products are as follows:

Loan Product	Interest Rates
Baroda Home loan, Baroda Home Improvement Loan	9.65% to 10.65% (1- year MCLR + strategic premium of 0.25% + 1%)
Baroda Home Loan	Up to Rs. 75 lakh = normal rate
Advantage	More than Rs. 75 lakh = 0.25% higher than normal rate
Baroda CRE Home Loan	0.25% more than normal home loan rate
Baroda CRE Home Loan (Advantage)	Up to Rs. 75 lakh = 0.25% more than normal rate More than Rs. 75 lakh = 0.50% higher than normal

Except above mention interest rates customers have to pay other fees and charges to acquire home loan that is unified processing charges. Customers have to pay 0.5% of the loan amount if the loan is less than Rs. 50 lakh with a minimum of Rs. 7500 and a maximum of Rs. 12500 and 0.25% of the loan amount if the loan is more than Rs. 50 lakh with a minimum of Rs.7500 and maximum of Rs. 20000. If home loan is takeover scheme is available then Rs. 7500 is levied.

The interest rate is also based on tenure of the loan which is based on marginal cost funds – based on lending rates from base rate effective with respect to April, 1, 2016. The given below tables represents the interest rate schedule with reference to tenure.

Loan Tenure	MCLR Rate %
Overnight	9.15
1 Month	9.20
3 Month	9.30
6 Month	9.35
1 Year	9.40
3 Year	9.40
5 Year	9.60

Customers Perception About Housing Finance Facility of BOB

The customer is the king of the market and his satisfaction is main objective of any business. To satisfy any customer every business should work on the customer's perception towards their product. Similar concept and thought is applicable in banking and finance sector. In present era customer behavior is a very complex concept. To understand the customer behavior it's

mandatory to know about their perception. In case banking and finance customer are very conscious and survive with many doubts. Following are the basic perception and doubts of customers about home loan facility of BOB.

- High interest rates and burden of hidden cost
- Unnecessary legal formalities and paper work
- Difficulty in pre pay

To analyze and check out about the above mention perception and doubts researcher used open ended interview cum questionnaire schedule. A sample of 150 customers was taken by the researcher randomly. The given schedule shows the profile of customers of BOB.

PARTICULAR	CRITERIA	NUMBER	PERCENTAGE
AGE	25-35	50	33.3
	35-45	60	40
	45 & above	40	26.67
GENDER	MALE	80	53.33
	FEMALE	70	46.67
OCCUPATION	SALARIED	60	40
	SELF EMPLOYED	40	26.67
	BUSINESS PERSON	40	26.67
	OTHERS	10	6.66

The above given schedules shows that the different age group of customers have significantly connected and using the home loan facility of BOB. In case of gender almost both male and female have acquired the facility. Salaried customers have more interested and acquired the home loan. The researcher found that approx 80% of customers are satisfied and happy with the interest rates. Customers gets all information related to fees and charges at the time of filing application only, even customers expressed that the other charges and fees levied by BOB is very nominal. According to the customers the procedure of filing and borrowing loan from BOB is incredibly easy and any layman can understand it. No agents and professionals are required. The employees of bank are extremely cooperative and they try to reduce the time and unnecessary paper work burden. In interview of various customers who have transferred their loan from other commercial bank to BOB researcher found that they are more satisfied. In case women customers, BOB have done lots of work to attract them

as like special discount in interest rates, single window option, etc. Even the result of such efforts we can see in the above given table also where females and males are in equal proportion. In case pre pay customers expressed that the procedure pre pay is very convenient and bank does not charge any addition fees and other expense. In interview customers also share about the agency functions of bank where researcher found that customers have high expectation where bank needs to work out. Finally researcher can conclude that the legal formalities are very less and convenient. The perception of customers about various issues were only a myth nothing else.

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