

## **AN EMPIRICAL STUDY OF REFINANCING (BALANCE TRANSFER) OF HOME LOANS**

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### **ABSTRACT**

*The Indian real estate market went through a sea change in the year 2018. Various shades of the domestic market came on surface. Certain geographic pockets witnessed a dip in terms of property valuation and sales volume, while other pockets witnessed property price appreciation and sharp growth. Impact of landmark regulatory policies such as RERA, GST and the Benami Transactions Prohibition Act along with demonetisation also changed the real estate landscape. 'Affordable Housing' was the buzzword for the real estate industry from 2018 onwards, courtesy government's schemes like Pradhan Mantri Awas Yojana (PMAY). The supply-demand scenario was expected to improve and unsold inventory levels were likely to decline further. Affordable housing was expected to drive supply and demand, backed by several government reforms. The study is an in-depth study about the balance transfer facilities offered by the financial institutions. The study was undertaken to understand the increasing competition among housing finance institutions to emerge as a successful lender of housing finance. With the market being customer sensitive, it is important for Housing Finance Companies (HFC's) to serve their customers as per their needs and refrain them from transferring their home loan to another financial institution. However, with HFC's offering attractive benefits to persuade customers to transfer their home loan, it is crucial for HFC's to understand the reasons for which customers are willing to transfer their home loans and thereby suggesting the areas of improvement for HFC's. The study provides an in-depth understanding about the balance transfer facilities offered by financial institutions and identifies the reasons for which borrowers transfer their existing home loan from one financial institution to another. Customer satisfaction level with the services of the financial institution after the home loan is transferred has also been studied. The study revealed that rate of interest and customer services were the two most important reasons for balance transfer of home loans.*

### **KEYWORDS**

**HFC, Home Loan, Balance Transfer, Disbursement etc.**

### **INTRODUCTION**

**Home Loan:** A home loan is a loan availed from a bank or other financial institutions in order to purchase a house, land, construct a property or simply to renovate an existing property. A lot of documentation and verification is required to avail a home loan.

**Home Loan Balance Transfer:** This is when a borrower transfers an existing home loan from one financial institution to another. Also known as refinancing, this also helps a borrower to avail lower interest rates and better services. There is lesser documentation involved in home loan balance transfer and it is easier to attain when compared to a home loan.

### **Features of Balance Transfer**

- Home loan balance transfer is a process wherein the home loan account will be transferred to another financial institution, meaning all future payments towards the home loan will have to go to the financial institution that has taken over the home loan.

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- Home loan balance transfers usually attract a processing fee payable to the new financial institution. This is important to note as this may overshadow the savings one may incur if he/she transferred the loan, depending on the loan amount. However, the processing fee varies from institution to institution.
- Refinancing a home loan usually involves the same process as availing a new home loan.
- A home loan can be refinanced only after a certain time, predetermined by the loan agreement.
- When the home loan is taken over by another financial institution, the existing financial institution transfers the outstanding principal amount to the new financial institution.

### ***Refinance (Balance Transfer) Process***

Switching an existing home loan is time-consuming, tedious and requires knowledge of the processes, documents and a clear understanding of all the terms and conditions offered by different lenders. It is, therefore, important to make an informed decision. Below stated are the steps involved in the process of doing a balance transfer:

#### **1. Cost Benefit Analysis**

The first step is to analyse and understand whether and how will the balance transfer of your existing home loan benefit you. It is advisable to opt for a balance transfer only after carefully understanding the following:

- **Credibility of the New Lender:** It is important that the new potential lender is credible in lending out money and the reduced interest rate offered is not just a promotional gimmick.
- **Consider all Costs:** Sometimes it can be easy to neglect costs that are associated with refinancing a housing loan. At the end of the day, the balance transfer is done to save money. Therefore, if the costs like stamp paper, documentation charges, processing fee, etc. outweigh the savings you receive, it becomes illogical to refinance your loan.
- **Quality of Service:** Sometimes, the service provided by a particular financial institution can overshadow the marginal savings received by refinancing your mortgage. It is important to do your research on the quality of customer support that a particular lender provides.
- **Go through the Loan Agreement:** A lowered rate of interest should not cause an inconvenience to you in future. Reading the fine print of the agreement from the new lender and the existing lender as well will give you all the information required to base your decision on whether or not to refinance your home loan.

#### **2. Approach the Current Lender**

Once the decision to transfer your existing home loan to a new lender is made, the next step is to approach the current lender to provide with the following documents:

- List of Documents (LOD) stating the documents, in custody of the current lender.
- No Objection Certificate.
- Foreclosure Letter.
- Statement showing the payment history of the borrower.

#### **3. Apply To New Institution**

After receiving all the above-mentioned documents, the next step is to apply for a balance transfer to the new lender. Additionally you also need to obtain No Objection Certificate (NOC) from the builder/society and submit additional documents such as proof of ownership, proof of income, etc. These documents help the financial institution to estimate the borrower's loan repaying capacity.

### **Credit Approval**

At this stage, the new lender evaluates the application of the borrower. The process involves re-evaluating the home loan and checking the credit history of the borrower. Once the credit approval is done, the borrower receives a letter from the new lender with the details of the sanctioned loan.

### **Documentation, Loan processing and Disbursement**

After the borrower receives the sanction letter, the next step involves documentation and processing of the loan. The borrower might be required to submit the KYC documents along with additional documents as said by the new lender. Upon receiving the required documents, the new lender hands over the cheque of the balance principal amount to the old lender in order to receive all the original documents that are in the custody of the old lender. With this, the post-dated cheques, which might have been given to the old lender, stands cancelled and the process of balance transfer is completed.

The financial implication of any housing loan will have its ups and downs. No matter the amount of research one puts in before he/she opts for a home loan, the long tenure of the loan can lead to a situation where the prevalent rates of interest are significantly higher or lower than the present home loan rate. In order to enjoy the benefits of lower rates of interest, a housing loan borrower may choose to go for a home loan balance transfer. The home loan balance transfer is an option that allows the borrower to seek a housing loan from a different bank or lender at lower rates of interest than that offered by the current lender. If the new financial institution approves the home loan balance transfer request, then the new financial institution settles the loan with current financial institution. The outstanding amount is repaid to the new financial institution through instalments at a lower interest rate. An individual should only opt for a home loan balance transfer if the interest offered by a financial institution is substantially lower than the rate offered by his current lender.

One must understand that there are costs associated with home loan balance transfer, consider all the fees and charges associated with the process, and understand if he/she is truly benefiting from the balance transfer of home loan.

### **LITERATURE REVIEW**

Comprehensive literature review was conducted to understand the various facets of home loans. Various researchers in the context of home loans have done several studies. Some of the relevant studies have been included in the literature review.

The conceptual framework of home loan in India was studied (Patnaik & Satpathy, 2017) and an empirical study was conducted on home loan industry. The various issues related to drivers of demand in housing, evolution of home loan, housing in India, importance and types of home loan have been discussed. Basics issues of housing loan were addressed.

The study (Geete & Thakur, 2014) concluded that people prefer H.D.F.C. bank to S.B.I. bank for home loan. Most people prefer government banks for loan especially older persons are more dependent on government banks. Younger population prefer more private banks because of services and facilities provided by private banks. The interest rate is lower in public sector bank (S.B.I.) compared to private bank (H.D.F.C.) but services for public sector banks are not up to the mark.

Purchase of home loan and low rate of interest, easy accessibility, status/ reputation of the institution and scheme offered by the company are the major factors for selection of the housing finance institution (Gupta & Sinha, 2015). Comparative study was done to identify factors affecting consumer's buying behaviour towards Home Loan (with special reference to S.B.I. and L.I.C.H.F.L.) and found that fixed rate of interest is most preferred option by the customers.

The paper (Tiwana & Singh, 2012) discusses about the regulatory aspects pertaining to housing finance companies in the light of various directions and guidelines issued by National Housing Bank (NHB) an apex level institution wholly owned by the Reserve Bank of India was set up in 1988 under National Housing Bank Act 1987. It promotes housing finance institutions, issues directions and provides finance and other support to the institutions.

Rapid urbanization has been one of the biggest challenges that the country had faced was about providing affordable housing to city dwellers, especially to the poor (Nallathiga, 2008). Lack of proper and adequate housing forces many of the inhabitants live in slums and squatted settlements. The appalling condition of urban slums, which lack the benefits of proper housing and hygiene, was therefore a major challenge to Indian cities. In India alone, about 100 million persons live in slums and slum-like conditions. These numbers are expected to touch 200 million by 2020.

(Pushpalatha, 2007) Observed that investment in building stands as an asset. As this investment becomes one time, anyone who invests should arrive at a good conclusion, whether to buy a single house or a flat. However, very rarely the decision taken by the purchaser stands as a final one, due to many factors. Therefore, the focus of this study was to project and brings out the economies and diseconomies in purchasing a house or a flat.

(Rao, 2006), discusses that home loans have been registering exponential growth in India during the last six years. Easy liquidity conditions, low interest rates, availability of tax shelters on repayment of principal and interest surging demand from middle-income group borrowers, lower regulatory capital, and the comfort of tangible security have all collectively contributed to the spurt in home loans. HDFC and LICHL are the major players in disbursement of home loans. These banks sanction up to 85% of the cost of the property as home loan for a maximum period of 20 to 30 years.

The growth trends in the domestic mortgage market were analyzed (Batra, 2009). The analysis was conducted for financial performance of Housing Finance Companies (HFCs) over financial year 2009. A significant increase followed by a decrease in interest rates, slowdown in economic activity, correction in property prices in most geographies, and the introduction of "8% home loan schemes" have added interesting dimensions to the Indian mortgage finance market in the recent past.

The housing sector contributes directly to overall production activities in the economy like job growth, tax revenue, wages, protection and wealth accumulation for households (Kumar, 2016). The housing sector is very important for both local and national economies. It has great relation to the employment of that area.

Due to bank reforms, government encouraged banking sectors to identify housing finance sector and its importance in lending (Garg & Kumar, 2014). The Housing finance sector is the fastest growing segment of the retail financing sector. The study revealed that agencies of public sector housing finance companies, private sector housing companies and banks are competitors in housing finance market.

## **RESEARCH OBJECTIVES**

The study was conducted to understand awareness of people regarding balance transfer facilities and related aspects with reference to the Home Loans.

### **Objectives**

- To know the level of awareness regarding the refinancing (balance transfer) facilities offered by various financial institutions.

### **Sub-objectives**

- To understand the factors that customers consider before availing a home loan and the level of importance of those factors to them.

- To find out the institution preference of respondents to avail a home loan.
- To find out the reasons for which customers would transfer their home loan, if they are aware of balance transfer facilities.

### **RESEARCH METHODOLOGY**

The research approach that was followed for the purposes of this research was the inductive one. According to this approach, researchers begin with specific observation, which is used to produce generalized theories and conclusions drawn from the research. The reasons for adopting the inductive approach was that it takes into account the context where research effort is active, while it is also most appropriate for small samples that produce qualitative data. For this study, a mix research model based on both qualitative research and quantitative research was used.

The qualitative research comprised of Interview Data was collected by personally interviewing the respondents using telephone. As far as data collection tools were concerned, the research was conducted using a semi-structured questionnaire, which was used as reference. A specific set of questions were prepared to guide the interview towards the satisfaction of the research objectives, after which the interview was further carried out based on the response of the interviewee.

The main advantage of personal interviews is that they involve personal and direct contact between the interviewer and the interviewee, as well as eliminate/minimize non-response rates. However, the interviewer needs to have the necessary skills to successfully carry out the interview. Semi-constructed interviews offer flexibility in terms of the flow of the interview, leaving a room for the generation of conclusions that were not initially meant to be derived regarding a research subject. The interviews were conducted for 200 respondents.

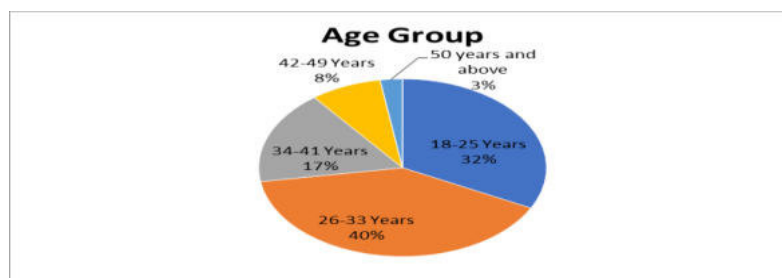
The quantitative research on the other hand comprised of survey. A survey was conducted through the help of a structured unbiased questionnaire, where responses were collected from 200 respondents. The questionnaire was constructively formulated to capture and understand the psychology of the respondents regarding home loans and balance transfer facilities.

The respondents for quantitative research were selected using the simple random probability technique. The responses were collected by conducting using a Google survey form. The questionnaire was constructed in a structured way, after considering the need and purpose of the study to cover all the relevant areas of information.

### **DATA ANALYSIS**

#### **Demographic Profile of the Respondents**

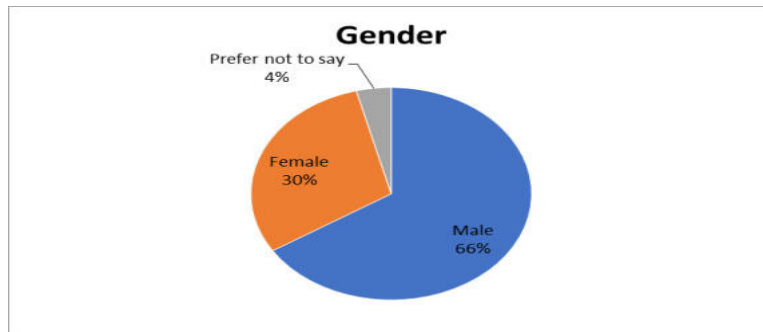
**Figure-1**



**Sources:** Authors Compilation

It can be interpreted that 40% of the respondents belong to the age group of 26-33 years, 32% belong to the age group of 18-25 years, 17% belong to the age group of 34-41 years, 8% belong to the age group of 42-49 years and 3% of the respondents belong to the age group of 50 years and above. (Refer Figure 1).

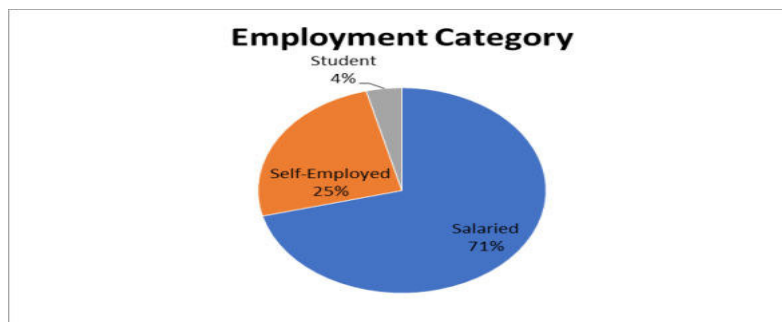
**Figure-2**



**Sources:** Authors Compilation

It can be interpreted that 66% of the respondents are male, 30% of the respondents are female and 4% of the respondents prefer not to disclose their gender. (Refer Figure 2).

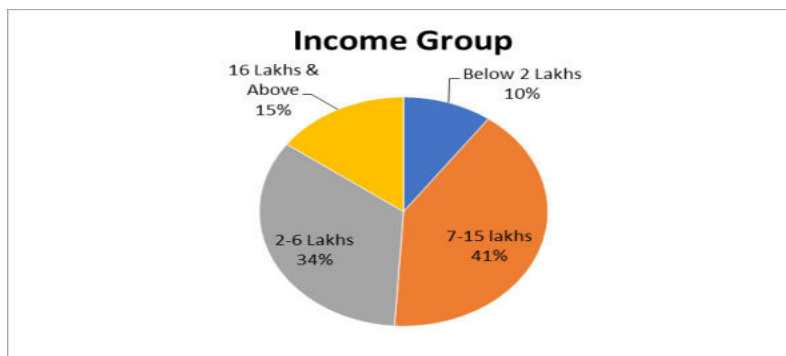
**Figure-3**



**Sources:** Authors Compilation

It can be interpreted that 71% of the respondents are salaried, 25% of the respondents are self-employed and 4% of the respondents are students. (Refer Figure 3).

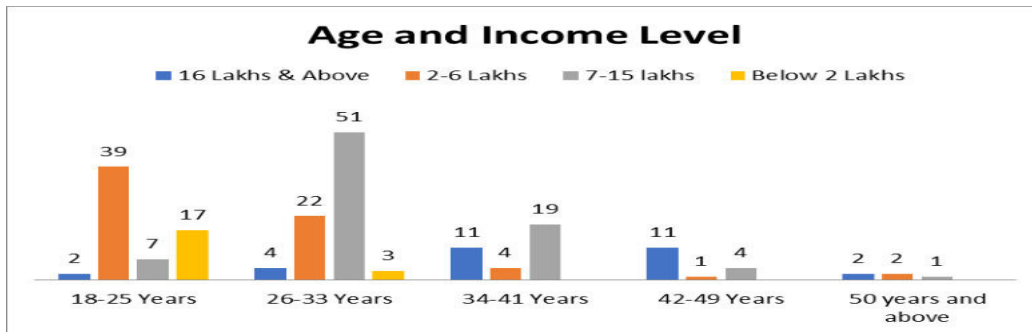
**Figure-4**



**Sources:** Authors Compilation

It can be interpreted that 41% of the respondents have an income of 7-15 lakhs, 34% of the respondents have an income of 2-6 lakhs, 15% of the respondents have an income of 16 lakhs and above and 10% of the respondents have an income below 2 lakhs. (Refer Figure 4).

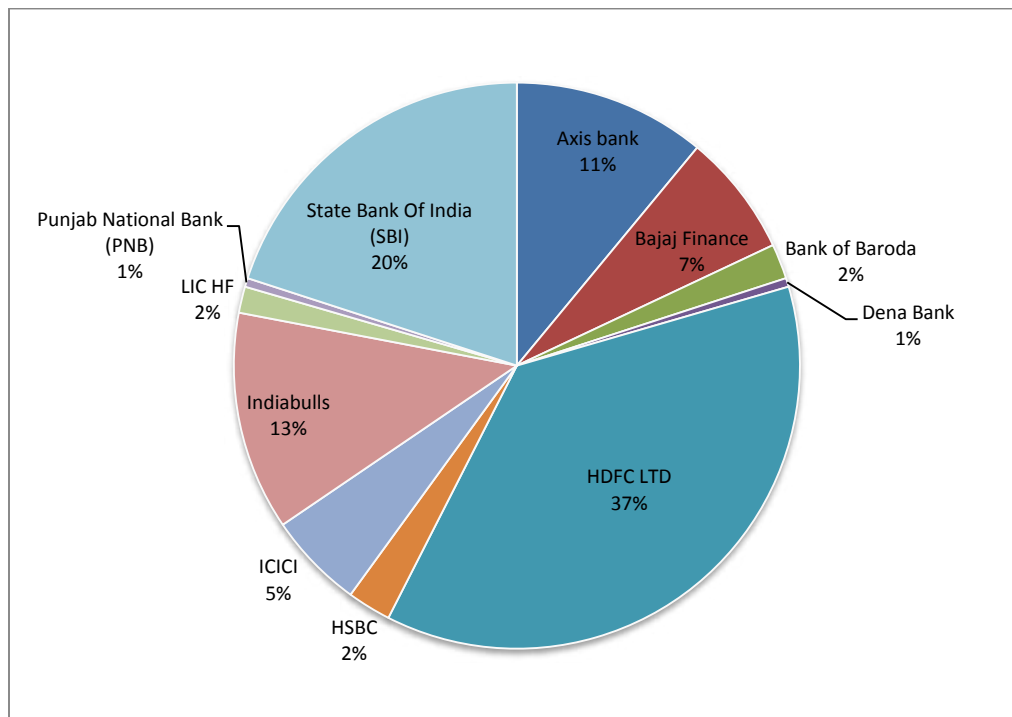
**Figure-5**



**Sources:** Authors Compilation

It can be interpreted that majority of the respondents belonging to the age group of 26-33 years have an annual income of 7-15 lakhs, followed by 2-6 lakhs and among the respondents in the age group of 18-25 years, majority of them have an annual income of 2-6 lakhs followed by an income of less than 2 lakhs. Among the respondents in the age group of 34-41 years, majority of them have an annual income of 7-15 lakhs, followed by income of 16 lakhs and above. (Refer Figure 5).

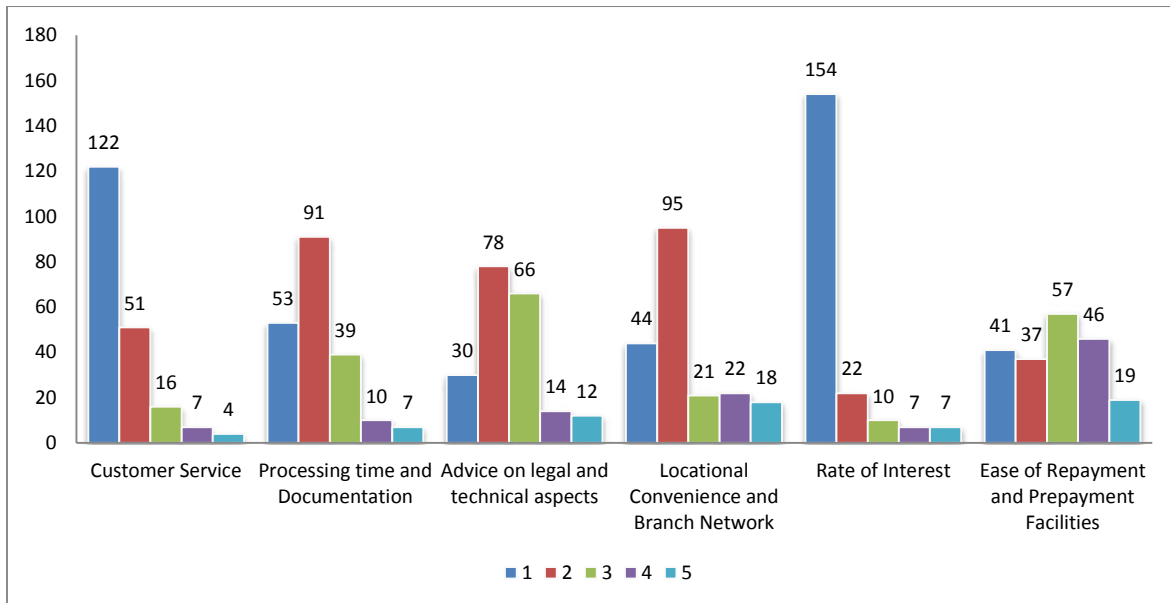
**Figure-6: Institution Preference for a Home Loan**



**Sources:** Authors Compilation

It can be interpreted that majority of the respondents, 37% preferred HDFC LTD to avail a home loan, followed by 20% of the respondents preferring State Bank of India (SBI), 13% preferring Indiabulls, 11% preferring Axis Bank, 7% preferring Bajaj Finance, 5% preferring ICICI, 2% preferring Bank of Baroda, HSBC and LIC HF each and 1% preferring Punjab National Bank (PNB) and Dena Bank each. (Refer Figure 6).

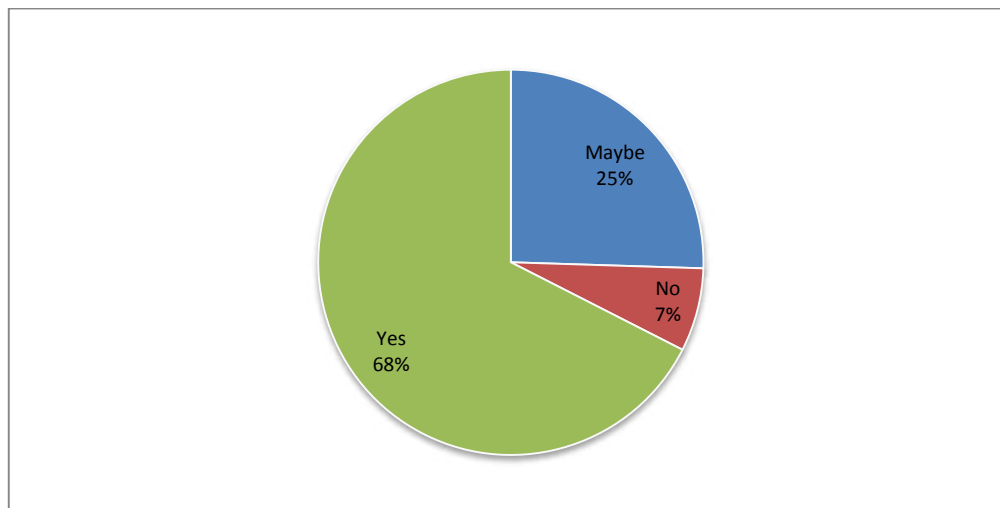
**Figure-7: Influencing Factors for Selecting a Financial Institution**



**Sources:** Authors Compilation

It can be said that rate of interest and customer service are the key influencing factors for selecting a financial institution to avail a home loan, being the most important for the respondents, followed by processing time and documentation, locational convenience and branch network and advice on legal and technical factors as important factors. Ease of repayment and prepayment facilities has a mixed preference of importance as being most important to some of the respondents while least important to others. (Refer Figure 7).

**Figure-8: Intent to Avail a Home Loan in Future**

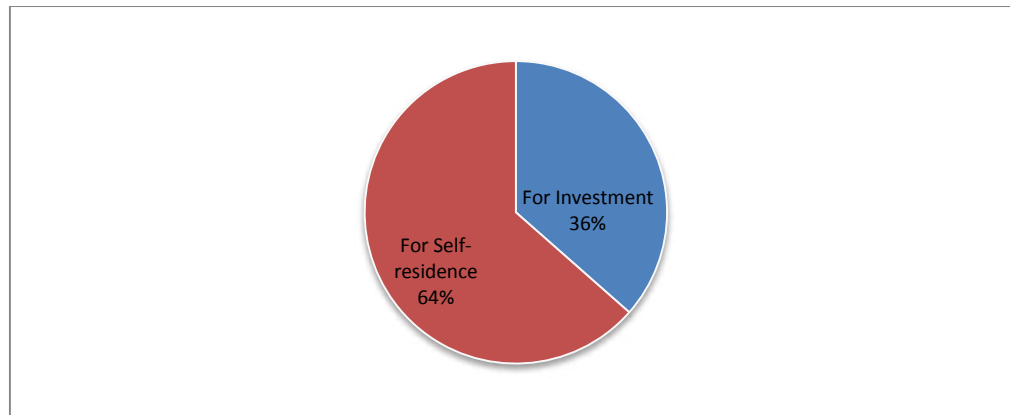


**Sources:** Authors Compilation

It can be interpreted that 48% of the respondents intend to avail home loan in future, 25% of the respondents do not intent to avail home loan in future and 25% may avail home loan in future. (Refer Figure 8).



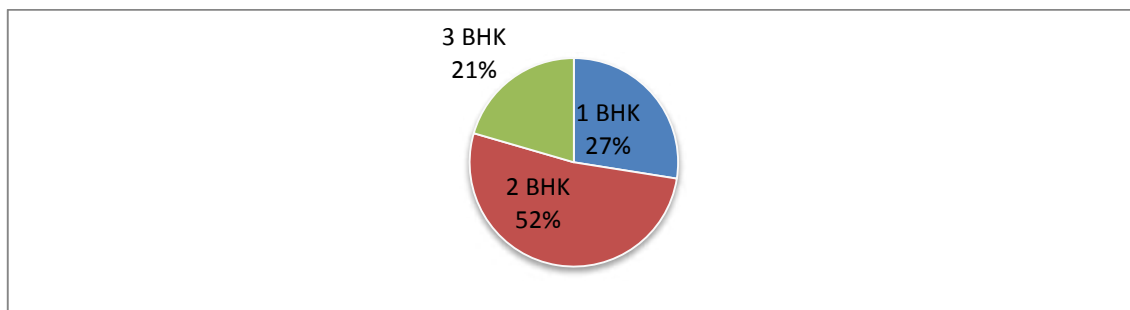
**Figure-9: Purpose to Avail Home Loan**



**Sources:** Authors Compilation

It can be interpreted that 64% of the respondents would purchase a home for self-residence and 35% of them would purchase a home for investment. (Refer Figure 9).

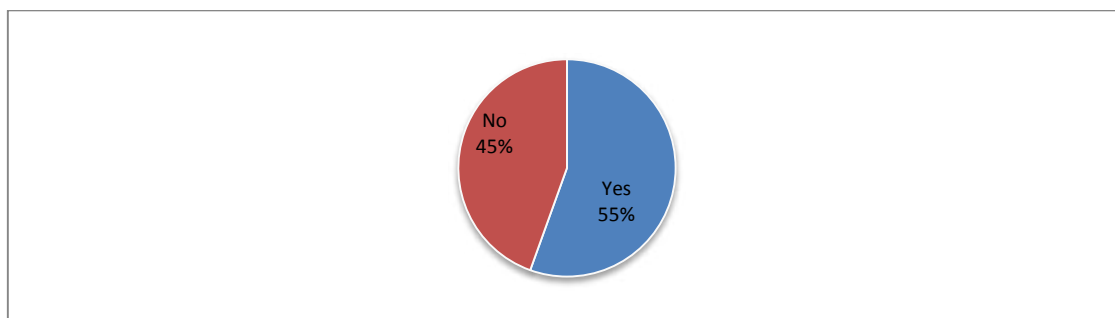
**Figure-10: Type of Property**



**Sources:** Authors Compilation

It can be interpreted that 52% of the respondents intend to purchase a 2 BHK home, 27% of the respondents intend to purchase a 1 BHK home and 21% of the respondents intend to purchase a 3 BHK home. (Refer Figure 10).

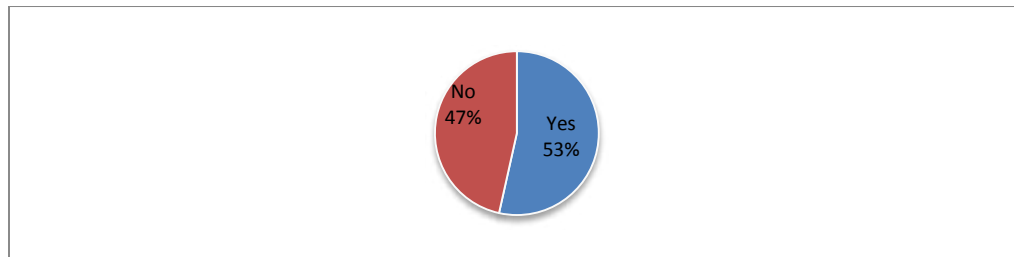
**Figure-11: Ongoing Loan with Any Financial Institution**



**Sources:** Authors Compilation

It can be interpreted that 55% of the respondents have an ongoing loan with a financial institution whereas 45% of the respondents do not have an ongoing loan with a financial institution. (Refer Figure 11).

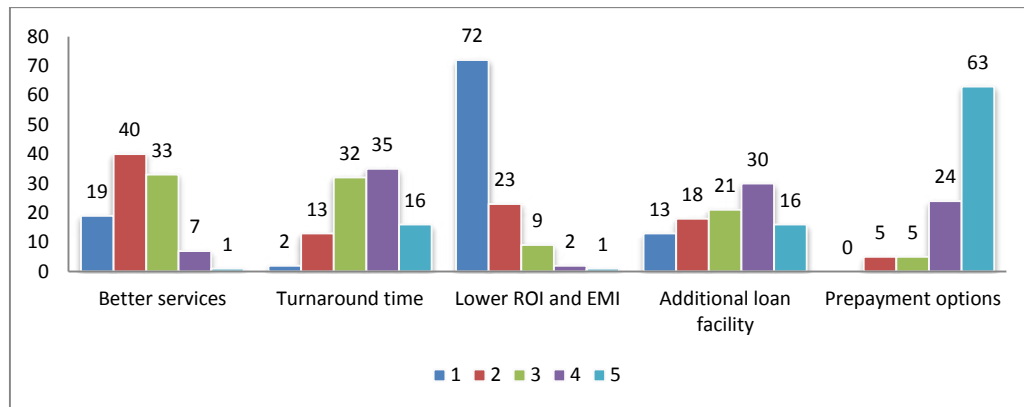
**Figure-12: Awareness Regarding Balance Transfer Facility**



Sources: Authors Compilation

It can be interpreted that 53% of the respondents are aware of the balance transfer facilities offered by financial institutions and 47% of the respondents are not aware of the balance transfer facilities offered by financial institutions. (Refer Figure 12).

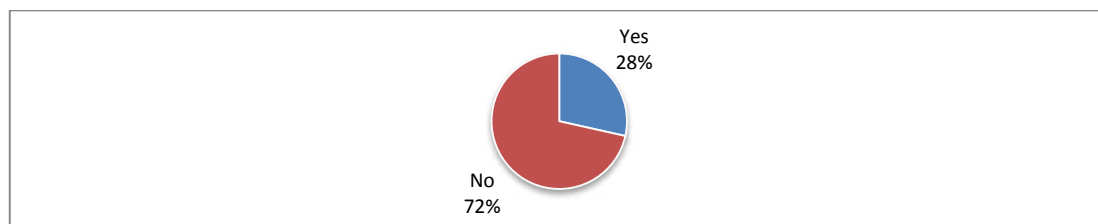
**Figure-13: Reasons for Probable Transfer**



Sources: Authors Compilation

It can be said that Rate of Interest and lower EMI are the major reasons for which respondents would transfer their home loan from one financial institution to another, followed by Better services, Additional loan facility, turnaround (processing) time and lastly for Prepayment options, the respondents would transfer their home loans for reasons stated in the above said order. (Refer Figure 13).

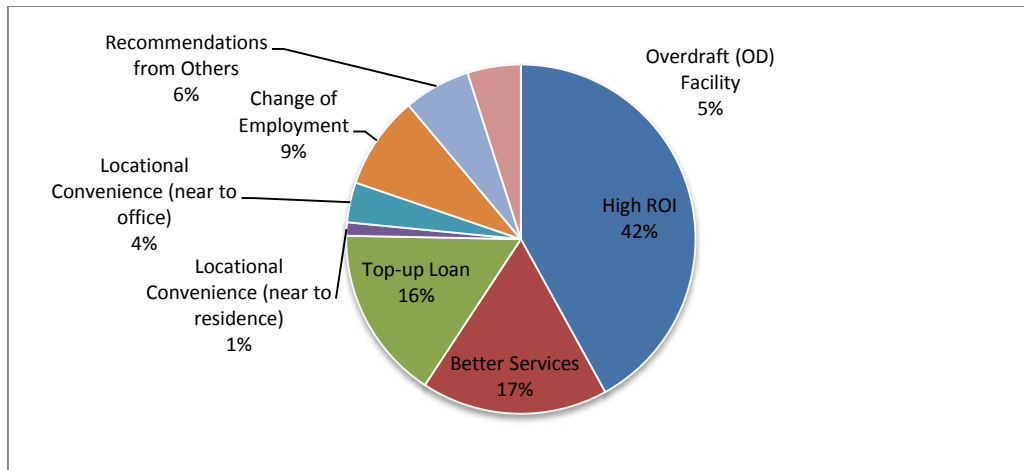
**Figure-14: Balance Transfer Done**



Sources: Authors Compilation

It can be interpreted that 72% of the respondents have not transferred their home loans and 28% of the respondents have transferred their home loans from one financial institution to another. (Refer Figure 14).

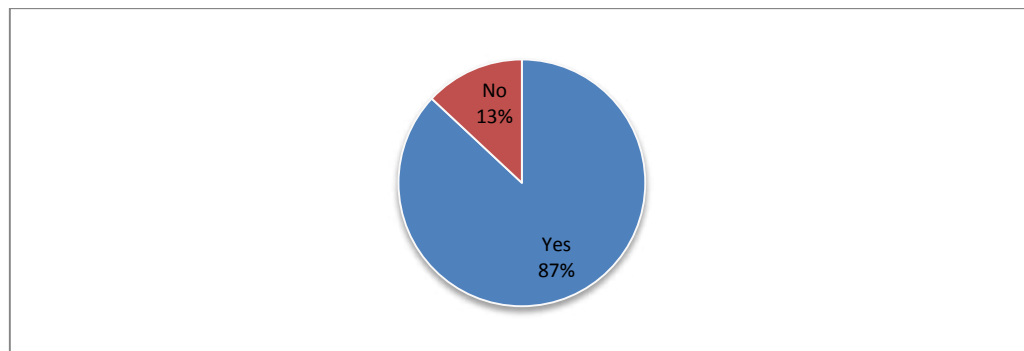
**Figure-15: Reasons for Balance Transfer**



**Sources:** Authors Compilation

It can be interpreted that 42% of the respondents transferred their home loan due to high ROI, 17% of the respondents transferred to avail better services, 16% of the respondents transferred to avail additional top-up loan, 9% of the respondents transferred due to change of employment, 6% of the respondents transferred due to recommendations from others, 5% of the respondents transferred to avail overdraft facility, 4% of the respondents transferred due to locational convenience of branch near to their office and 1% of the respondents transferred due to locational convenience of branch near to their home. (Refer Figure 15).

**Figure-26: Satisfaction Level with the Institution**



**Sources:** Authors Compilation

It can be interpreted that out the respondents who transferred their loans from one financial institution to another, 87% of the respondents are satisfied with the services of the institution after transferring the loan and 13% are not satisfied. (Refer Figure 16).

## CONCLUSIONS

The Key Findings from the study are as follows:

- The customers, in general, while choosing a housing finance institution, give first preference to the rate of interest charged by the housing finance institutions. They consider the interest rate as very important factor to select a housing finance institution, followed by the customer services offered by the institution.

- The high rate of interest and poor services at former institutions are the primary reasons for which customers transfer their home loans from one financial institution to another.
- Majority of the respondents intend to avail a home loan in near future. This paves the way for increasing business and expanding the customer base for housing finance institutions.
- Majority of the respondents are aware of the balance transfer facilities offered by housing finance institutions.
- Hdfc Ltd is well positioned in the housing finance market, relative to its competitors, as the most preferred housing finance company to avail a home loan, offering competitive interest rates and best possible customer service.

### **RECOMMENDATIONS**

The housing finance business in India that has developed remarkably is witnessing a major turn-around over the years. In spite of the phenomenal increase in the number of players in the housing finance sector, the potential continues to be the huge as the number of those seeking affordable loans also grows proportionately. It can be said that the key to success depends upon not only being able to offer the most competitive rates, but also the best possible service, and in structuring products to meet customer requirements.

The future continues to look bright, as demand for housing will sustain despite a short-term slowdown. This is due to lower penetration of mortgages in the country. At 10%, the proportion of mortgages in gross domestic product in India is among the lowest in the world. The proportion is 22%, 32% and 20% for the emerging economies of China, Malaysia and Thailand, respectively. For developed countries, including the US and UK, this is greater than 50%.

Apart from this, the housing finance companies should focus on serving the needs of the customers. For this, the housing finance institutions should reduce their paper work and lengthy procedure. The customer have faced several difficulties while obtaining the housing loans from the banks such as large number of formalities, delay in processing and sanctioning of loan, un co-operative attitude of the staff members etc. The procedure must be simple and easy to understand. The housing finance institutions should dispose borrowers' applications and loan processing as quickly as possible.

Housing finance institutions should offer more digital services such as online loan processing, online rate conversion facilities, online prepayments of loans and so on which saves a lot time of customers as well the employees of the institutions.

As housing finance segment is a big one, balance transfer of home loans can be a lucrative option for customers, to avail lower interest rates and other benefits and housing finance institutions, to increase customer base and acquire higher market share in the market.

### **SCOPE AND LIMITATIONS**

The study initially involves an overview of the housing finance industry, its history and current scenario and the role of NHB as a regulating body. The scope of the study is further narrowed down to the refinancing (balance transfer) facilities that can be availed on an ongoing loan, its features, process and benefits.

The study aims to understand the factors, which people consider before availing a home loan from any financial institution. The study also identifies the level of awareness among the people regarding the balance transfer facilities, providing a scope for opportunities to financial institutions. It also helps to find out the reasons for which customers do refinancing (balance transfer) of their existing home loans from one financial institution to another and their level of satisfaction with the services of the institution after transferring the home loan.

This study will help financial institutions to conduct further research in this area. The findings of the study were based on the opinions of the respondents, which may be biased. No major work has been done so far in the said area so getting enough literature for review was a constraint. Opinions of the respondents may change over time and situation.

A sample size may not always represent the whole population. Due to time constraints, the sample was limited to 400 respondents. A bigger sample would probably enhance the reliability of the research. Hence, the results cannot be generalized.

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