

SERVICE QUALITY OF HOUSING FINANCE COMPANIES IN INDIA

A CASE STUDY OF LIC HOUSING FINANCE LIMITED AND HDFC

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ABSTRACT

Customer is an integral part of business. Customer satisfaction is an exclusive area especially in the service sector. The survival of business has direct correlation with satisfaction of the customer. Customer satisfaction, which is attributed to the conduct of business, has certain specific dimensions. Analyzing service experience brings to focus two aspects. Apart of service experience, which can be controlled by the service provider, here the housing finance company. It can plan and execute every encounter in such a way that loanees get the best conditions. The finance companies in their cascading flow of service plans manage professional delivery of service, which leads to customer's delight. The other part of service experience that cannot be controlled by the service provider is customer's level of fatigue, his boredom and attitude. Generally Housing Finance Companies maintain a long term relationship with their customers from the date of sanctioning letter of a loan to clearing the loans. Customers need a variety of services during this period on various parameters relating to disbursement, rate of interest, loans for expansion, foreclosure, mode of repayment etc., keeping in view the relative importance of each service, an attempt has been made in this study to measure and compare the quality of service extended to customers by LIC Housing Finance Limited and HDFC. The research was carried out among 300 home loan beneficiaries by using a structured questionnaire. For the purpose of analysis various statistical tools has been applied like log linear regression model, mean score values and t-test.

Keywords: Service Quality, Determinants of Home Ownership, Customer Awareness, Home Loan Beneficiaries Problems and Satisfaction Levels

INTRODUCTION

Service quality has become an important factor among the customers in retail banking. For the success and survival in the banking sector, provision of high service quality is necessary in meeting several requirements such as customer satisfaction and its consequent loyalty, attracting new customers and to increase the market share and profitability. Service quality is consistently viewed in the literature as a unique construct from customer satisfaction. The consumer considers that the service quality stems from a comparison of what he feels about the service and what is the performance of that service offering. In short, in order to evaluate the service quality the discrepancy between consumer's expectations and perception should be calculated.

The service quality has become a principal competitive weapon in the banking industry. Services are intangible and are also not easily duplicated. Quality on the other hand, is differentiable and stems from the expectations of the customers, Hence, it is necessary to identify and prioritize the customers' expectations for service quality and incorporate these expectations into a service process for improving quality. The key variables in meeting customer expectations begin with identifying the specific characteristics of service quality as perceived by the customer who defines the nature and importance of service quality.

Amongst the service industry, the banking sector is perhaps the largest one that caters to the needs of people belonging to all sections of society. Moreover, perceived service quality tends to play a significant role in high involvement (high interaction between customers and service providers) industry like banks. Also, banks traditionally have long term business relationships with customers. In addition, the banking sector is large enough to capture and represent almost all the critical features of customer-perceived service quality and the critical dimensions of TQS that the management may have to encounter in order to manage a service organization effectively.

Amongst the types of advances under Retail Banking, housing finance has become the best preferred choice for all banks and financing institutions. It is important to choose a good housing finance company which can handhold the customer right through his home buying process. Since a home loan is a long term commitment of 15-20 years, several factors like expertise, quality of service, in-depth domain knowledge and the company's level of commitment and transparency right through, the loan procedures, quality of services offered and safe retrieval of the title deed are critical. In this context the present study gives an attempt to provide a comparative view of LIC Housing Finance Limited and HDFC bank in providing housing finance facility.

OBJECTIVES OF THE STUDY

The broad objectives of the study are:

1. To assess the perception of the customers regarding housing loan facility provided by LIC Housing Finance Limited and HDFC
2. To compare the opinion of the customers about home loan of LIC Housing Finance Limited and HDFC

LITERATURE REVIEW

In the words of Jones et al., (1995), Improving service quality is thought to ultimately leading firms to gain new customers as well as retain current customers. Kelley et al., (1994) and Zeithaml et al., (1996) have found a positive relationship between customer repurchase intentions and service quality perceptions.

Pun, K.F. and Ho, K.Y., (2001) have cited that those who provide customers with quality services can have a stronger competitive position in today's dynamic marketplace. In the views of Lovelock, C. and Lapert, D. (1999), a large number of service quality problems result from incidents that occur between customers and staff, service industries use new technologies more and more in order to reduce or suppress customer contact. Thus, telephone conversations have replaced face-to-face contact, and 'human' services are replaced by self-services which often depend on the use of computers and automations.

Dr. Anil K. Khandelwal, (2006), in his article, "Falling on high: Consumers on a high", found that things are moving certainly in favor of customers. Not only that loans become cheaper, but they also come with a host of value-added services including property identification.

Gonit Chadha, (2008) in his article, "Customer services: A paradigm shift", says unmatched quality service to customers is currently just a buzzy word. With all banks offering similar products, service is the key differentiator. Home loans are no exception in his context where there is a fierce struggle for competence.

D. Krishnan, (2011) in his article "Services: The Key Differentiator", has stated there is definitely a shift in the focus of the customer. With lower and lower interest rates being the most attractive part of a housing loan. The interest picture is bound to stabilize down the road, and most HFC's will sport almost similar terms and conditions and the customers will have limited little to choose by way of difference in the effective terms of a loan.

RESEARCH METHODOLOGY AND SAMPLING

In order to achieve the specific objectives of the study, primary data has been collected with the help of structured questionnaire containing questions on various aspects of service quality of housing finance companies. The present study of home loan is based on a sample of 300 customers, of which 167 customers has been selected from LIC Housing Finance Limited and 133 customers selected from HDFC. The geographical coverage of the sample profile is confined to branches of LIC Housing Finance Limited and HDFC bank located in Visakhapatnam districts of Andhra Pradesh. Data collected from different sources were tabulated and classified so as to make the study systematic and scientific. Different tables were prepared for the purpose to concentrate on each and every aspect of the study. After tabulation of the data, an analysis was made using different statistical tools such as log linear regression model, mean score values and t-test so that reliable conclusions might be drawn.

RESEARCH FINDINGS AND DISCUSSIONS OF RESULTS

On the basis of the information collected and analysis made thereof with the help of the statistical tools, the results are presented in following tables.

Determinants of Housing Ownership

It is meaningful to study the factors influencing the respondents to own a house because the urge to own a house among the respondents is basis for the housing finance. It is generally stated that increasing the rate of home ownership is one of the major goals of national housing policy. The rationale is that greater home ownership would improve the general level of housing quality and facilitate saving and wealth accumulation of households.

A large number of demographic, social and economic profiles of the household like age, sex, marital status, size of the household, number of children in the household, neighborhood, household mobility, income, price, distance to work place, number of family members, promotional measures adopted by the housing finance companies, influence of friends and relatives and the psychology of the household determines the ownership. There are studies using the current and expected income as the determinant of the ownership. But with the changing economic trend, it is highly insufficient. So it is more meaningful to study the factors relating to the profile of respondents as well as the strategy of housing finance companies also. It is also useful for the housing finance companies to modify their strategy to survive in the competitive housing finance field.

In the present study, the considered independent variable are rent of the household, EMI, Tax relief, influence of friends and relatives, social status, advertisement by finance companies and promotional measured adopted by Housing finance companies. These variables are assigned ranks by the respondents starting from one to seven to the I rank to one mark to the VII rank. The taken dependent variable is the amount of loan obtained for the ownership of a house from the housing companies. In order to estimate the relative importance of independent variable on house ownership, the log linear regression model is applied. The model is

$$\text{Log } y = A + b_1 \log x_1 + b_2 \log x_2 + b_3 \log x_3 + b_4 \log x_4 + b_5 \log x_5 + b_6 \log x_6 + b_7 \log x_7$$

Where as

Y - Amount of loan obtained for home ownership

x₁ - Marks assigned to rent paid at per month at last

x₂ - Easy Monthly Installment

x₃ - Tax Relief

x₄ - Influence of friends and relatives

x₅ - Social status

x₆ - Advertisement by Finance companies

x₇ - Promotional measures adopted by Housing Financial Companies

A – Intercept and

B₁, B₂, B₃, B₄, B₅, B₆, B₇ are the co-efficient of the independent variable

The resulted regression co-efficient of independent variables on the home ownership of the respondents are shown in table

The significantly influencing variable on the ownership are easy monthly installments, tax reductions and social status among the LICHLFL respondents. Co-efficient of determination in the above said case is 0.6713. It conveys that the change in the house ownership is explained by the considered independent variables to the extent of 67.13%. It means that the attitude towards EMI, tax reduction and social status highly influence the respondents in choosing housing finance.

Among the HDFC beneficiaries, the most significant variables influencing the home ownership are tax reduction and social status since their regression co-efficient are 0.9117 and 1.3042 respectively which are significant at 5 percent level. An increase in one unit of the above said variable lead to increase of 0.9117 and 1.3042 units in the amount of housing loans. The co-efficient of determination (R^2) among the HDFC respondents indicates that the changes in the amount of housing finance are influenced by the considered independent variable to the extent of 52.77%. The fitted regression model is also significant at 5 percent level.

Table 1. Factors Influencing the Home Ownership

Sl. No	Independent Variable	Regression Co-efficient		
		LICHLFL	HDFC	Total
1.	Rent paid at per month	0.3194	0.0214	0.2641
2.	Easy Monthly Installment	0.5121*	0.3012	0.4117
3.	Tax Relief	1.2043*	0.9117*	0.9916*
4.	Influence of friends and relatives	-0.1211	0.2021	-0.0892
5.	Advertisement by Finance companies	0.0921	-0.1217	-0.0179
6.	Social status	0.9013*	1.3042*	0.9664*
7.	Promotional measures adopted by HFCs	0.4112	0.2072	0.2708
	Constant	4.2121*	2.0117	2.7623
	R ²	0.6713	0.5277	0.6814
	F	19.2213*	21.0534*	24.0462

Source: Primary Data, Significant at 5 percent level

In the case of pooled data, the significant variables that influence the amount of housing finance are tax reduction and social status that have the regression co-efficient of 0.9916 and 0.9664 respectively. It shows that an increase in I unit in the above said variable namely tax reduction and social status will increase the amount of housing finance by 0.9916 and 0.9664 units respectively. The change in housing finance is explained by the considered independent variable to the extent of 68.14%. The fitted regression model is also significant at 5 percent level. The above analysis only conveys that the increase in tax reduction and EMI will increase the amount of housing finance secured by the respondents.

Sources of funds for Home construction/Purchase

The people who want the ownership of a house should have some financial background required to show the margin of investment on housing finance. Even for applying for housing finance, they have to show their percentage of contribution of home ownership. The

sources of finance are too many. The people depend not only on one source of finance a part from financial companies but also on several sources of finance to construct/purchase a house. One of the major sources of finance may be housing finance. The housing finance may take some lead-time for its processing, sanctioning and disbursement. Hence, people use their own source of finance initially. The study on source of finance is very important because that involve the housing cost. Sometimes the source of finance may raise the problem of future ownership of the houses due to higher rate of interest. Since, the sources of finance are many, the respondents are asked to rank the sources. In the present study, the sources of finance are confined to own funds, private finance, Provident fund, Life insurance policies, retirement savings, housing finance and pledging and selling of gold and sale of property. The marks have been assigned to each source according to its rank mentioned by the respondents (from seven marks for the first rank, to one mark for the seventh rank). The average score of the sources of finance is calculated to exhibit the importance of the sources of finance among respondents. The resulting average score of the finance to construction/purchase a house is presented in table 2

The popular sources of finance among the respondents of LICHFL are housing finance, own funds and PF since their mean sources are 5.13, 4.11 and 3.21 respectively. Where as in the case of HDFC respondents these sources are own funds, housing finance and pledging and selling of gold by respondents since their mean scores are 4.62, 4.21 and 3.79 respectively.

Table 2. Sources of Funds Utilized To Construct/Buy House

Sl. No	Sources of funds	Average Score			
		LICHFL	HDFC	Mean Difference	't' Statistic
1.	Own funds	4.11	4.62	0.51	0.7184
2.	Private finance	2.38	3.11	0.73	1.6124
3.	Retirement Savings	1.08	0.32	0.76	1.8017
4.	Provident Fund	3.21	0.27	2.94	4.2581*
5.	Housing Finance	5.13	4.21	0.92	2.4058*
6.	Pledging and selling of gold	2.21	3.79	1.58	3.1121*
7.	Life Insurance Policies	1.91	2.96	1.05	3.0123*

Source: Primary Data, Significant at 5 percent level

In order to find the significant difference of the sources of finance among the respondents of LICHFL and HDFC the 't' statistic was computed. Regarding the sources of funds namely Provident Fund, Housing Finance, Pledging and selling of gold and Life insurance policies there was difference among the LICHFL and HDFC respondents since the calculated 't' values were greater than the table values at five percent level of significance.

Factors Influencing the Choice of Housing Agency

Once the house is designed and the estimate is made, the next most important factor to execute this long cherished dream is money. Today there are umpteen numbers of housing

agencies in different parts of India, eager to provide finance for housing in private sector, public sector and corporate sector.

The respondents selected the housing agency for housing finance because of several reasons. The reasons for selecting the housing agencies are treated as factors influencing the choice of Housing agency. In the present study, the influencing factors are Low rate of interest, Quickness in sanctioning of loan, Minimal formalities and procedures, Easy Monthly installments, Influence of friends and relatives, Behavior of officials, Convenient repayment scheme, Most Popular, The only one available and eligible for loan. The above said variables are rated on a four point scale namely strongly agree, agree, moderately agree, and disagree which carry 4,3,2,1 mark respectively. The average score obtained by factors are presented in table 3

The mean score is higher in the case of variables namely advertising, quickness in sanctioning of loan and behaviour of officials of the finance company among the respondents of LICHFL since their mean values are 3.73, 2.89 and 2.44 respectively. Among the respondents of HDFC, the most influencing factors are behaviour of official, advertising and influence of friends and relatives since their mean values are 3.92, 3.21 and 3.14 respectively. The significance difference between the two housing agencies respondents are identified in the variable namely low rate of interest, quickness in sanctioning of loan, influence of friends and relatives, behaviour of officials and most popular. Among the LICHFL the mean scores of low rate of interest is 1.22 where as among the HDFC the mean score is only 0.27. Similarly, the influence of friend and relatives is identified as an important factor since the mean score is 3.14 among the HDFC, whereas among the LICHFL the mean score is only 1.02. The HDFC respondents are more highly influenced by friends and relatives to choose HDFC than the LICHFL.

Table 3. Factors Influencing the Choice of Housing Agency

Sl. No	Sources of funds	Average Score			
		LICHFL	HDFC	Mean Difference	't' Statistic
1.	Low rate of interest	1.22	0.27	0.95	2.2117*
2.	Quickness in sanctioning of loan	2.89	1.97	0.92	2.1921*
3.	Minimal formalities and procedures	1.71	1.34	0.37	0.2196
4.	Easy Monthly installments	1.88	2.21	0.33	0.1844
5.	Influence of friends and relatives	1.02	3.14	2.12	3.7068*
6.	Behavior of officials	2.44	3.92	1.48	2.1962*
7	Convenient repayment scheme	1.92	1.48	0.44	0.3063
8	Most Popular	2.02	1.07	0.95	2.2006*
9	Advertising	3.73	3.21	0.52	0.3114
10	Eligible for loan	0.98	1.23	0.25	0.2626

Source: Primary Data, Significant at 5 percent level

Problems Encountered By the Respondents

The loanees face a lot of problems from the initial stage to the final stage of the loan repayment. The problems may be related to formalities to be followed, loan sanctioning procedure, nature of loan disbursement, repayment system, response of the officials at finance companies and the like. Study of these problems may help the finance companies to rectify the nature of the product and face business completion better. The present study classified the problems into Getting loan application, Filling up the application, Documents needed for screening, Transparencies in screening, Time consumed for screening, Time consumed for screening, Action against default, Disbursement of loan, Time gap between 1st and subsequent Instalment, EMI, Rate of Interest, Mode of repayment, Intimation about amount sanctioned, Intimation about varying interest rates and return of documents. The above problems are measured with the help of a four point scale. The scale values are highly serious, serious, not highly serious, and not serious. The respondents were asked to view each problem as and I mark respectively. The overall attitude towards the problem is also measured with the help of the average of the total problems together which is calculated by the total score of all problems divided by the total number of problems. The average score is found for each problem and also all problems put together for two housing agencies for respondents separately. The difference of attitudes towards the problems between the two agencies is also identified with help of 't' statistic. The resulted average scores are shown in table 4

Table 4. Problems Encountered By the Respondents

Sl. No	Sources of funds	Average Score			
		LICHFL	HDFC	Mean Difference	't' Statistic
1.	Getting loan application	1.11	1.36	0.25	0.0431
2.	Filling up the application	1.81	3.83	2.02	2.7064*
3.	Documents needed for screening	3.69	3.66	0.03	0.2472
4.	Transparencies in screening	1.82	1.23	0.59	0.3171
5.	Time consumed for screening	3.36	3.08	0.28	0.0462
6.	Action against default	0.92	1.97	1.05	2.0634*
7.	Disbursement of loan	1.02	1.62	0.60	1.1171*
8.	Time gap between 1st and subsequent Instalment	2.21	1.62	0.59	0.0321
9.	EMI	3.09	2.94	0.15	0.0247
10.	Rate of Interest	3.48	3.17	0.31	0.1064
11.	Mode of repayment	1.17	0.92	0.25	0.0723
12.	Intimation about amount sanctioned	0.86	0.92	0.06	0.0027
13.	Intimation about varying interest rates	3.21	0.97	2.24	2.9457*
14.	Return of documents	2.43	2.62	0.19	0.0146
15.	Gap between loan approved and sanctioned	1.61	3.82	2.21	3.0317*
Overall		2.0137	2.2922	0.2062	0.6881

Source: Primary Data, Significant at 5 percent level

The important problems for the respondents of LICHFL are documents needed for screening, rate of Interest and time consumed for screening since its average scores are 3.69, 3.48 and 3.36 respectively. Whereas among the HDFC respondents the problems are filling up the application, gap between loan applied and sanctioned and documents needed for screening since the average scores are 3.83, 3.82 and 3.66 respectively. The beneficiaries of HDFC perceive more problems than the respondents of LICHFL since the overall average scores of the above housing agencies are 2.2922 and 2.0137 respectively. It shows that the HDFC beneficiaries perceive more problems in housing loan system than the LICHFL beneficiaries are notices in filling up the application form, action against default, disbursement of loan, gap between loan applied and sanctioned, and intimation about varying interest rates since the 't' values are significant at five percent level.

Degree of satisfaction towards services offered by LICHFL/HDFC

The degree of satisfaction towards services offered by the financial agencies like LICHFL and HDFC are measured at four point scale. The various content of service are analyzed and scrutinized as 13 variables. The respondents were asked to rate their position regarding each variable one by one. The scale values are highly satisfactory, satisfactory, moderate and not satisfied.

The attitude leads to a perception of the service industry especially the service offered by the industry. The service may be a single word but it consists of many items. The degree of satisfaction of each item in the service should be analyzed in a scientific way to reveal the customer perception towards service. The various aspects in service are measured with the help of scaling technique. The items in the service are rated by the respondents on a four point scale namely highly satisfactory, satisfactory, moderate and not satisfied.

Even though, the contents of the service are too many; in the present study, the contents are classified as Time taken between processing of application and sanctioning of loan, Minimum adequate details are sought for eligibility, Facilities at office, Replying to mail/telephone calls, Staff knowledge on schemes, Individual care taken by officials, Quick disposal of loan, Availability of personnel at the service counter, Facilities available after loan sanctioned, Received instalments in time, Time given for repayment, Mode of repayment and Return of title deed and other documents after repayment of loan. The above said variables are rated on a four point scale namely highly satisfactory, satisfactory, moderately satisfactory and not satisfied agree which carry 4,3,2,1 marks respectively. The average score obtained by factors are presented in table 5

Table 5. Degree of Satisfaction towards Services

Sl. No	Sources of funds	Average Score			
		LICHFL	HDFC	Mean Difference	't' Statistic
1.	Time taken between processing of application and sanctioning of loan	1.71	1.34	0.37	0.2196
2.	Minimum adequate details are sought for eligibility	2.89	1.97	0.92	2.1921*

Table 5. Degree of Satisfaction towards Services (Contd...)

Sl. No	Sources of funds	Average Score			
		LICHFL	HDFC	Mean Difference	't' Statistic
3.	Facilities at office	0.98	1.27	0.25	0.2626
4.	Replying to mail/telephone calls	0.89	1.17	0.28	0.7012*
5.	Staff knowledge on schemes	1.82	1.23	0.59	0.3171
6.	Individual care taken by officials	0.86	0.92	0.06	0.0027
7.	Quick disposal of loan	3.09	2.94	0.15	0.0247
8.	Availability of personnel at the service counter	3.73	3.21	0.52	0.3114
9.	Facilities available after loan sanctioned	2.02	1.07	0.95	2.2006*
10.	Received instalments in time	1.22	0.27	0.95	2.2117*
11.	Time given for repayment	2.44	3.92	1.48	2.9162*
12.	Mode of repayment	1.88	2.21	0.33	0.1844
13.	Return of title deed and other documents after repayment of loan	1.92	1.48	0.44	0.3063

Source: Primary Data, Significant at 5 percent level

The important factors identified to assess the degree of satisfaction of the respondents of LICHFL are availability of personnel at the service counter, Quick disposal of loan, Minimum adequate details are sought for eligibility since their mean values are 3.73, 3.09 and 2.89 respectively. Among the respondents of HDFC, the most influencing factors are time given for repayment, availability of personnel at the service counter, quick disposal of loan since their mean values are 3.92, 3.21 and 2.94 respectively. The significance difference between the two housing agencies respondents are identified in the variable namely Minimum adequate details are sought for eligibility, replying to mail/telephone calls, facilities available after loan sanctioned, received instalments in time and time given for repayment since the calculated 't' values were grater than the table values at five percent level of significance. The time given for repayment is an important factor, among the HDFC the mean scores of time given for repayment is 3.92 where as among the LICHFL the mean score is 2.44. The HDFC respondents are more highly satisfied when compared with LICHFL.

RECOMMENDATIONS

1. It was found that there are various satisfactory factors which affect the satisfaction level of customers of home loan. On the basis of collected data, it is being concluded that customers of both banks i.e LIC Housing Finance Limited and HDFC bank are

satisfied but not highly satisfied due to high rate of interest is charged by banks and complicated term and conditions. So there is a need to reduce the rate of interest charged by banks while lending home loan and making the term and conditions easy and understandable for customers.

2. Since 46% of the total beneficiaries feel the burden of repayment, soft repayment should be encouraged. Soft repayment is a facility provided by the house financing agency to extend the period of repayment with reduced equated monthly installments. Those who do not have a regular or steady income may become defaulters of the repayment of loan as equated monthly installments. No stringent action should be taken but to give them sufficient time by extending the repayment period.
3. The LICHFL and HDFC should issue a certificate detailing the annual payments made, for income tax exemption purposes, every year without waiting for the borrowers to ask for it. Along with it, annual statement of balance due can also be sent.
4. In order to keep the time gap between the expected and the perceived service at a minimum it is important that the promises made in the course of propagating the services should be realistic. They should be translated into effective action.
5. The majority of the LICHFL beneficiaries are not satisfied with the activities and services. Quick processing of application and sanctioning of loans will attract many to undertake house construction activities by availing loans from LICHFL. Board of Management should have a “**Regulatory Authority**” in each region to co-ordinate and check the functions and the loan procedure delays.

The above recommendation might not be exhaustive but these would definitely meet the changing expectations of the people and show the superiority of the services rendered by the LICHFL and HDFC in the housing industry.

CONCLUSION

Customer are associated with banks for many services that they require on regular basis and people tend to prefer banks which provide better facilities and convenient banking. The higher satisfaction level among the respondents indicates that the bank is responsive to the needs and problems of the customers. The success of the housing companies in the market rest on the availability of customized product and also the service quality offered to customers. The future growth of the companies depends upon its qualitative service to the customers. At this juncture, the banks should evaluate their services and identify their distinction from others. Changing customer needs and uncertain economic conditions in are exerting pressure on housing finance companies.

It is concluded that LIC Housing finance Limited and HDFC are very popular among the customers these days. The trust level that customer have with these banks is very high in comparison to other banks. The success of the LICHFL and HDFC in the housing finance industry is in its marketing network. They have more number of marketing personnel than the regular office staff. If the service quality is improved the profitability of the company is

sure to increase. The service quality of these two housing financing agencies is upto the expectations of the people obtained loans.

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