

Customer Preferences in Housing Loan in Private and Public Sector Banks

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ABSTRACT

The housing loan market is at the center of making people's dream of owning residential property a reality, and public and private sector banks act as the prime facilitators in this regard. The housing finance market in India has been growing tremendously because of urbanization, increasing incomes, and government-friendly policies. But the preference for housing loans differs significantly among customers based on their attitude towards services, interest rates, trust, and convenience provided by banks. Identifying and understanding customer preferences for housing loans in public and private sector banks is the purpose of this study. The study investigates key determinants like rate of interest, charges for processing fees, flexibility in repayment, quality of customer service, availability of digital banking facilities, and satisfaction in general. Public sector banks are seen as more dependable and trustworthy, especially among middle-class and rural consumers, because they have government support and uniform procedures. Private sector banks, however, are chosen by young and urban consumers who value quicker disbursement of loans, digital ease, and customized services at slightly higher costs. By analyzing such differing tastes, the study brings out the ways in which socio-economic status, demographic profile, and information levels shape customer choices. The findings of this paper shall be immensely helpful for banks to customize their loan products and enhance service delivery. Furthermore, the comparative analysis highlights the imperative for public sector banks to introduce more customer-centric and technology-based solutions, whereas private banks have to focus on establishing greater trust and transparency. This research not only adds to the literature on consumer behavior in housing finance but also provides valuable suggestions for improving competitiveness and customer satisfaction in Indian banks.

Keywords: Housing Loans, Customer Preferences, Public Sector Banks, Private Sector Banks.

Introduction

Home is one of the fundamental human requirements and is directly associated with one's economic and social security. With increased urbanization, lifestyles, and incomes in an emerging nation like India, the need to own a house has assumed greater significance. Yet, as house prices keep increasing, it is not possible for people to afford houses without subsidy. Housing finance has, thus,

become an important instrument for enabling homeownership for millions of individuals by spreading the burden of repayment over a number of years.

The Indian banking system has a major role to play in extending housing finance. Public sector banks and private sector banks are both actively involved in catering to varied financial requirements of customers. Government-owned and regulated public sector banks are normally relied on for their reliability, stability, and comparatively low interest rates. They have a widespread presence in rural and semi-urban areas as well, making them a favorite among middle-income and risk-averse customers. Their loan processing and approval processes, though, are usually seen as slow and bureaucratic.

Conversely, private sector banks are noted for efficiency, faster processing, and customer-focused services. They focus on electronic banking, flexible repayment schemes, and customized methods that appeal to urban, younger, and better-off customers. While their interest rates and fees tend to be higher at times, customers appreciate the convenience and speed with which private banks operate.

Customer choice between these two types of banks is determined by numerous factors including rate of interest, processing charge, duration of the loan, quality of customer service, accessibility, and technology support. Demographic factors like age, income, occupation, and location also determine the decision-making process. An analysis of these preferences assists banks in better understanding customer expectations and restructuring their services so that they can remain competitive.

The purpose of this paper is to examine customer choices in housing loans from public sector banks and private sector banks. It compares both groups' strengths and weaknesses, identifies the determinants that drive borrower decisions, and makes suggestions towards enhancing customer satisfaction. Not only does the study enhance the body of knowledge in consumer behavior for financial services at the academic level, but it also provides applicable knowledge that can be used by banks to improve the housing loan book and serve the changing demands of Indian customers.

Background of the Study

Housing is one of the most fundamental human necessities and a key indicator of social and economic well-being. In developing countries such as India, demand for housing has grown exponentially with population growth, urbanization, and the desire for higher living standards. With the emergence of nuclear families, urban migration, and growing disposable incomes, there has been an exponential rise in the demand for housing finance. Housing loans have thus become a critical financial product facilitating individuals and families to become homeowners by availing themselves of the cost over an extended period of repayment.

In India, the housing finance industry has developed immensely in the past few decades. Public sector banks and government organizations, e.g., Housing and Urban Development Corporation (HUDCO) and National Housing Bank (NHB), used to dominate the sector. But with the liberalization of the Indian economy in the 1990s, private sector banks and non-banking financial companies (NBFCs) joined the housing finance segment with competition, innovation, and services based on customer needs. This change has provided the customers with more choices, better quality of services, and brought housing finance within the reach of various segments of society.

The difference between public and private sector banks still remains for the customers. Public sector banks are generally preferred because of their stability, broader presence, and government support, which allure rural and middle-class borrowers. On the other hand, private sector banks are linked to speed, convenience, and customized services, appealing more to urban, higher income, and younger populations. The dynamic between these two segments of banks has established a vibrant housing loan segment wherein customer choice is driven by considerations like interest rates, processing charges, loan term, documentation, Internet banking facilities, and the belief factor of trustworthiness of the institution.

Analysis of customer preferences in housing loans is critical to understanding borrowers' financial decision-making, what matters most to them, and how banks can enhance their operations to stay competitive. This study aims to compare customers' perceptions and expectations regarding housing loan products in public and private sector banks and hence advance both academic understanding and real-world implications for the banking sector.

Significance of Housing Loans in India

Housing loans are extremely important in India, both as a product and as a socio-economic driver. Home ownership for people signifies security, stability, and social standing. Because property is a high-value asset, most families rely on housing loans to make this aspiration possible. By facilitating payment over long durations, the loans minimize the economic burden and enable homeownership among middle- and lower-income segments.

Macro-wise, the housing loans directly help in increasing the growth of construction and real estate industries, two of the largest employment-generating sectors in the nation. Higher disbursement of housing loans spurs demand for building materials, skilled manpower, and allied industries, thus pushing economic growth. Also, the government has realized the significance of housing finance in serving its developmental goals, particularly with schemes such as "Housing for All" and the Pradhan Mantri Awas Yojana (PMAY). The subsidized interest rate and tax relief on housing loans also reflect their significance in India's policy landscape.

The banking industry also gains considerably from housing loans since they are a major percentage of retail loan portfolios. Housing loans are relatively low-risk due to their underlying collateral, and thus, they are a favorite product of banks. As there is increasing urbanization and lifestyle expectations, the market for housing loans will continue to expand, enhancing their position in India's financial system.

Therefore, housing loans in India are not only tools of personal empowerment but also conduits for overall economic development and financial inclusion.

Role of Banking Sector (Public vs. Private)

Public Sector Banks (PSBs)

- Government-owned banks with greater rural and semi-urban penetration.
- Perceived as more secure, dependable, and affordable because of lower interest rates.
- Tend to be preferred by middle-income and risk-averse clientele.
- Tend to have bureaucratic procedures, longer loan processing time, and less customized services.

Private Sector Banks

- Reputed for speed, efficiency, and customer-oriented service.
- More focus on digital banking, online application, and choice of flexible repayment terms.
- Target urban, salaried, and higher-income classes.
- Interest rates and fees could be higher but are made acceptable by convenience and faster processing.

Objectives

- To study customer preferences in selecting housing loans from public and private sector banks.
- To examine the major factors affecting customer decisions like interest rate, loan term, quality of service, and electronic facilities.
- To analyze the levels of customer satisfaction between public sector banks and private sector banks.
- To determine the demographic and socio-economic characteristics of customers choosing housing loans.
- To recommend how banks can become more competitive and increase customer satisfaction.

Scope and Limitations

Scope

- Aims at housing loans in public sector banks and private sector banks in India.
- Analyzes customer attitudes, satisfaction, and behavioral patterns.
- Considers urban as well as rural customers to maintain balance in the analysis.
- Offers comparative data relevant to policy makers, banks, and researchers.

Limitations

- Results may not be applicable everywhere since the study is local area specific.
- Responses may be based on customer perceptions as opposed to their actual experience.
- Secondary data might be limited or outdated in some instances.
- The study does not include housing finance companies (HFCs) or NBFCs at length.

Review of Literature

S. Syed Ahamed & Md. Tipu Sultan (2019) "Customer Perception on Home Loan Finance: An Analytical Study on Influencing Factors" Area of focus: Krishnagiri district, Tamil Nadu. Main findings: House price, rate of interest, tax rebate, and income level have a significant impact on customers' demand for housing loan.

"A Study on Consumer Perception and Satisfaction Towards Home Loan" (IRE Journals, ~2021-2022) Area of focus: Public vs. private banks, based on customer feedback. Findings: Home loan product awareness is comparatively high; clients balance service quality, speed of processing, and transparency when comparing banks.

"Impact of Factors Affecting Customer Satisfaction Towards Home Loan" (IJCRT, 2021) Authors: not prominently stated in abstract. Highlights: Specifies important factors (processing time, transparency, loan terms) affecting the level of satisfaction of housing loan borrowers.

"A Study on Customers' View and Perception Towards Home Loan" (JETIR, 2025) Topic: Consumer attitudes towards home loan schemes, disbursement, satisfaction. Conclusion: There is a gap between what banks provide and what consumers expect; banks provide competitive rates to lure borrowers.

"Consumers Insight Towards Housing Loan: An Empirical Study" (JETIR, ~2022) Topic: A comparative analysis of the home loans provided by public and private banks based on a sample of 100 respondents. Findings: Variation in preference factors; clients of private banks focus on speed, convenience, whereas public bank clients value stability, cost savings.

"A Study on Perception and Awareness Towards Home Loans Offered by Public & Private Banks" (Sudindra & Avinash, ~2021-2022) Location of focus: Hyderabad area. Findings: Most customers are not well aware of intricacies in schemes; public vs private bank perception varies regarding trust, technology, and convenience.

"A Study on Customer Satisfaction Towards Housing Loan of Public and Private Sector Banks" From Sathyabama University (2025) Insights: Borrowers analyze satisfaction on the basis of home loan policies, facilities, behavior of staff. Both banks possess their own plus and minus points.

"A Comprehensive Study on Customer Satisfaction in Housing Finance" (IJNRD, 2023) Focus: National level, with special reference to HDFC and other housing finance players. Outcomes: Highlights reforms' role, collaboration between public and private sector, and changing customer expectations in housing finance.

"A Comparative Study of Home Loan Procedure and Customer Satisfaction: SBI vs HDFC" (2025) Focus: Assesses procedures, documentation, interest rate, support services among public (SBI) and private (HDFC) banks in Coimbatore. Findings: HDFC excels in terms of speed, customer care, while both are at par as far as fee transparency is concerned.

"An Empirical Analysis of Customer Satisfaction With Influencing Factors in HFC Housing" (IJHSSI, 2024) Theme: Mysuru district, comparing HFCs, public and private bank loans. Findings: loan policy, processing times, delay in sanction have significant effect on satisfaction. Certain factors (e.g. repayment schedule) did not have strong effect.

"Comparative Analysis of Customer Satisfaction: SBI & LIC (HFL)" (IJCRT, 2025) Focus: Comparison of a large public sector bank (SBI) and a housing finance company (LIC HFL). Findings: Quality of service is important; variations in satisfaction are due to processes, responsiveness of service, and trust in institutions.

"Study of Customer Perceptions and Satisfaction Towards Home Loans of Banks in NCR" (Think India Quarterly) Focus: NCR region, 250 customers from public, private, self-employed sectors. Key

findings: Greatest challenges are documentation, delays, and concealed charges; customer satisfaction levels differ by type of bank.

"A Customer Perception Towards Home Loans in Indian Banks" (IJCRT, ~2023)Focus: General overview of home loan offerings across types of banks. Insights: Most customers opt for private banks due to efficiency; but public banks are preferred for stability and less risk.

"Home Loans Offered by Public and Private Sector Banks" (IJCRT, ~2022)Title: "Home Loans Provided by Public and Private Sector Banks"Focus: Comparison of interest rates, processing process, customer satisfaction.

"CUSTOMER PERCEPTION TOWRDS HOME LOANS – A Comparative Study of Public & Private" (JETIR, 2025)Compares SBI, HDFC, IndusInd etc — home loan customers' perceptions between sectors.

Research Methodology

Research Design

The research employs a descriptive research design because the main aim is to compare and analyze customer preferences for housing loans in public sector banks and private sector banks. The design is appropriate as it will enable collection of customers' opinions, perceptions, and behavior using questionnaires.

Sample Size and Sampling Method

- Sample Size: 100 respondents (50 from public sector banks and 50 from private sector banks).
- Sampling Method: Convenient sampling method has been applied, targeting customers who have taken or applied for housing loans from sample banks.

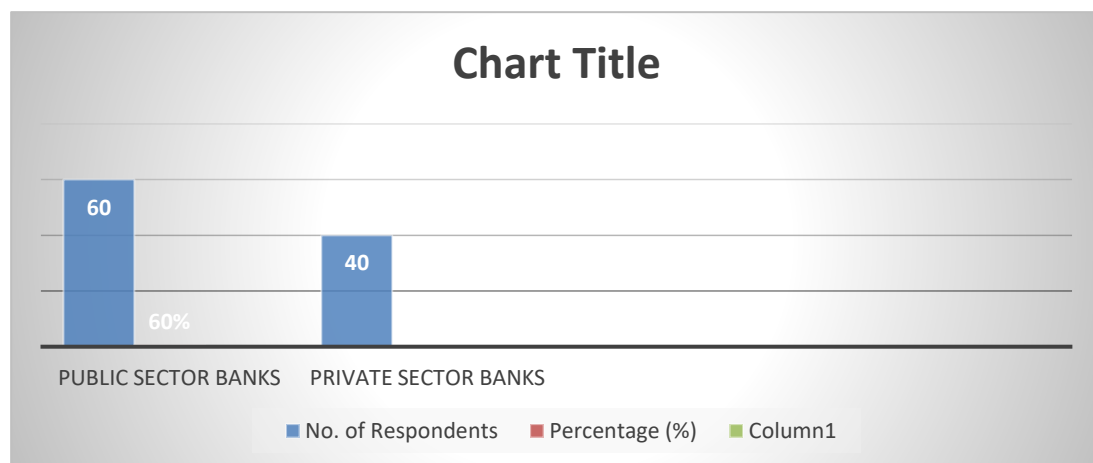
Data Collection Methods

- Primary Data: Obtained through a well-crafted questionnaire with close-ended and open-ended questions.
- Secondary Data: Obtained from research articles, journals, banks' annual reports, websites, and government publications on housing finance.

Data Analysis

Table 1: Preference of Banks for Housing Loans

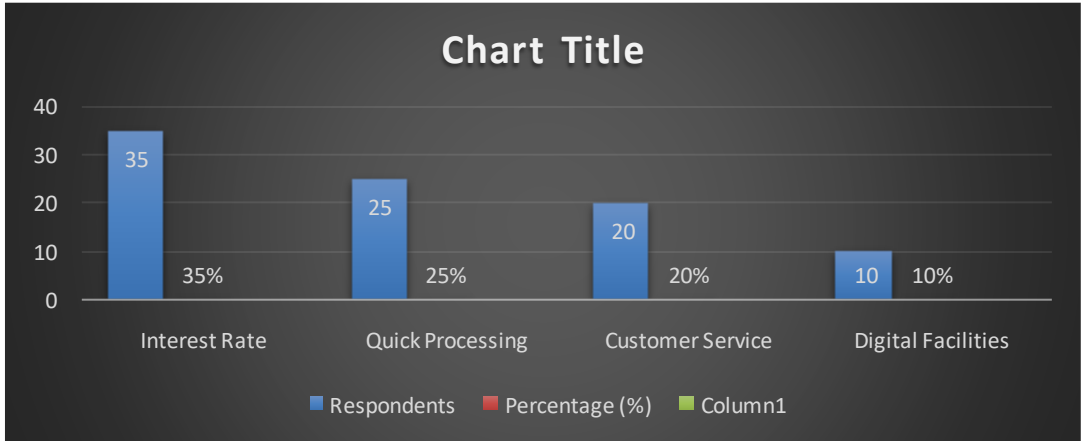
YPE of Bank	No. of Respondents	Percentage (%)
Public Sector Banks	60	60%
Private Sector Banks	40	40%



Interpretation: The majority (60%) of respondents prefer public sector banks due to lower interest rates and higher trust, while 40% prefer private sector banks for faster services.

Table 2: Factors Influencing Selection of Bank

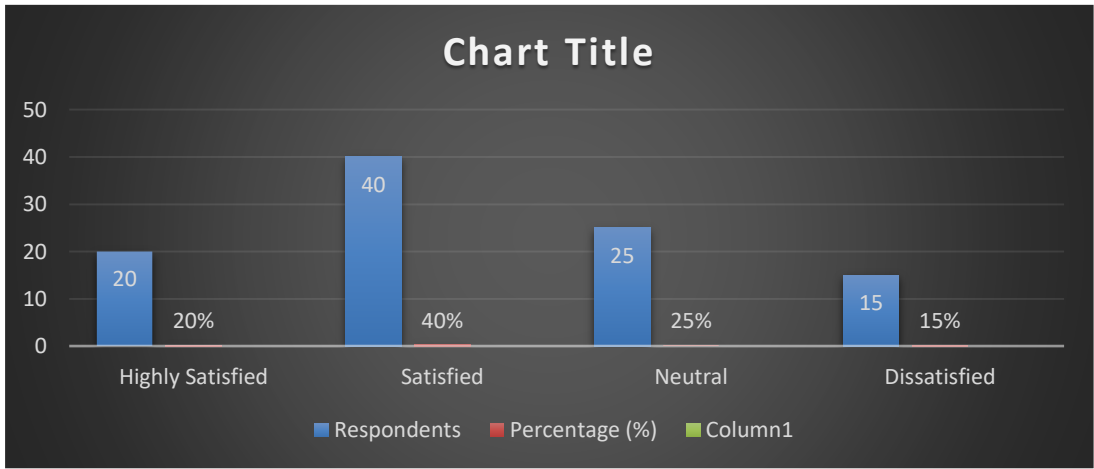
Factor	Respondents	Percentage (%)
Interest Rate	35	35%
Quick Processing	25	25%
Customer Service	20	20%
Digital Facilities	10	10%
Loan Tenure Flexibility	10	10%



Interpretation: Interest rate (35%) is the most significant factor influencing customer preference, followed by quick processing (25%).

Table 3: Customer Satisfaction Level

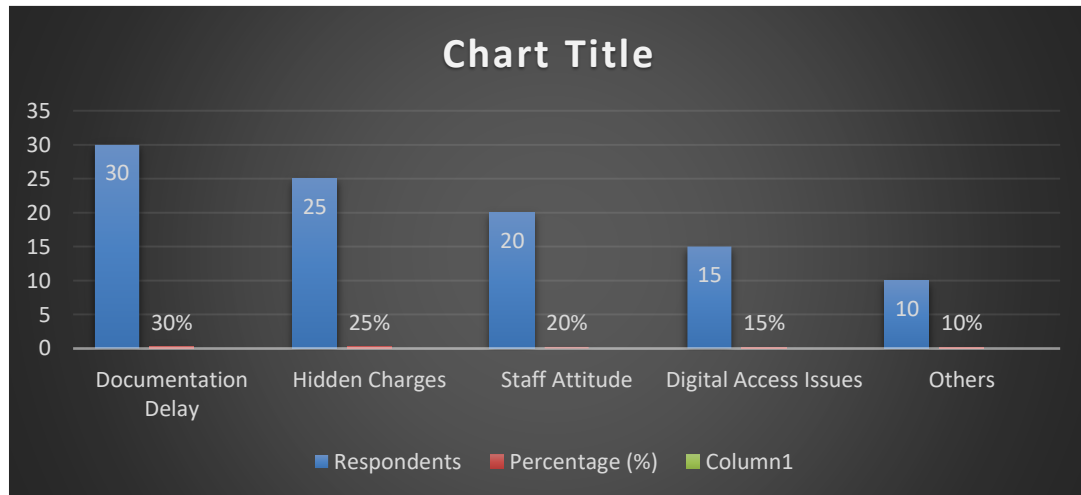
Satisfaction Level	Respondents	Percentage (%)
Highly Satisfied	20	20%
Satisfied	40	40%
Neutral	25	25%
Dissatisfied	15	15%



Interpretation: 60% (Highly Satisfied + Satisfied) customers express satisfaction, while 15% are dissatisfied, indicating scope for improvement in housing loan services.

Table 4: Problems Faced by Customers

Problem	Respondents	Percentage (%)
Documentation Delay	30	30%
Hidden Charges	25	25%
Staff Attitude	20	20%
Digital Access Issues	15	15%
Others	10	10%



Interpretation: Documentation delay (30%) is the major issue, followed by hidden charges (25%).

Discussion

The research provides important observations regarding customer inclinations towards public and private sector bank housing loans. Most of the respondents opt for public sector banks mainly for the sake of lower interest and faith in government-supported organizations. Yet, a notable portion still leans towards private sector banks because of quicker loan sanctions, customer-centric facilities, and sophisticated online amenities.

Interest rate still prevails as the most significant factor in determining loan decisions, with 35% of the respondents' giving it top priority. This is a further confirmation that customers are extremely price-sensitive when it comes to making long-term commitments such as housing loans. In addition, it is found that speed and efficiency in the loan processing is also paramount, an aspect where private sector banks have an advantage over others.

Customer satisfaction analysis reveals that though most are satisfied, there is a significant group of neutral and dissatisfied customers. The main reasons for this dissatisfaction are procedural delays, concealed charges, and documentation issues. These issues point to the necessity of greater transparency, easier procedures, and enhanced communication between banks and lenders.

The paper also illustrates the mounting significance of online banking amenities. Whilst remaining secondary to speed and interest rates, youthful and urban consumers increasingly regard online access as a factor of determination. Public sector banks specifically must improve their technology-based services if they wish to remain competitive.

In all, the results show that though public sector banks have greater trust and affordability, private banks dominate customer convenience as well as service quality. An equilibrated strategy integrating low-cost finance with effective delivery of services can greatly help in improving customer satisfaction and loyalty in the housing finance sector.

Conclusion

The study concludes that customer choice in housing loans is governed by a set of cost, service quality, and accessibility determinants. Public sector banks are preferred by a majority due to their lower interest rates, trustworthiness, and wider reach, making them the first choice for middle-income and risk-averse borrowers. Private sector banks, while chosen by fewer respondents, are valued for quick processing, superior customer service, and digital banking facilities, which appeal to younger, urban, and higher-income borrowers.

The study indicates that interest rate continues to be the most significant driver, but procedural efficiency and service delivery are increasingly becoming key in determining borrower choices. Levels of customer satisfaction reflect a positive trend in general, but the incidence of dissatisfied customers points towards such recurring causes as documentation delay and charges hidden from view. These issues reflect areas where banks need to concentrate to create stronger relations and better overall borrower experience.

In summary, public sector as well as private sector banks have their own strengths and weaknesses. Public sector banks need to streamline their operations and become more customer-friendly, whereas private sector banks need to improve transparency and establish long-term trust among customers. Addressing these issues, both the sectors are able to widen their market share, boost customer loyalty, and contribute positively towards India's growth in housing finance.

Suggestions

- Public sector banks need to make procedures simpler and decrease documentation delays.
- Private banks need to enhance transparency in fees and conditions.
- Both need to emphasize improved customer service training for employees.
- Improved digital platforms need to be created, particularly by state-run banks.
- Banks need to provide tailor-made loan products for customer segments (urban/rural, salaried/self-employed).
- Awareness programs and financial literacy drives need to be conducted to make customers aware of housing loan schemes.
- Inter-linkages with government schemes (such as PMAY) need to be improved to enhance affordability.

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