

# **CHAPTER - I**

## **INTRODUCTION**

### **1.1 Background of the Study**

Twenty first century is remarked as the century of globalization, prioritization, and economic liberation. This phenomenon makes possible the emergence of many sectors. Banks and financial institutions are one of them. In Nepal, it is very complex and challenging task in running the activities of banks and financial institutions. Structure of the economy of Nepal has still remained primarily agricultural with very small manufacturing base. The economy of Nepal is characterized by declining interest rate, high inflation and slow growth in per capita income, low income, low savings and low investment along with very low growth rate. In this context financial companies try to boost up the economy.

The fastest growing sector of Nepal is banking and financial sector. The main reason behind this may be its flexibility and benefit to adjust the demand of the bankers and depositors. The financial institutions are authorized to accept deposit under several schemes and to mobilize the funds in wide range of productive sectors like agricultural, industrial, trade and commerce. According to “Commercial Bank Act 2031” Commercial banks are those banks which are establishes under this act to perform commercial functions. They supply financial needs of modern business.

The history of modern banking started after the establishment of Nepal Bank Limited, the first bank in the country, in 1937 A. D. The Nepalese economy at that time was highly influenced by the Indian market. Indian currencies were widely in circulation and Nepalese economy was predominantly non monetized. Thus only Nepal Bank Limited was not able to provide services all over the country. With the political freedom in 1957 A. D. a planned development process started in the country. This led to the formulation of the first development plan in 1956 A. D. At the same time need of a central bank to regulate the money supply and help banking development in the country was felt. Accordingly, Nepal Rastra Bank (NRB), the central bank of the country, was established in 1956 A. D. under the Nepal Rastra Bank Act 1955.

After the restoration of democracy Nepal has adopted more liberal and open economic policies. Reforms introduced in the financial sector in the early 1980s have led to some significant improvements including interest rate liberalization, removal of entry restriction for establishing the commercial banks and insurance companies in the private sector and the enactment of Finance Company Act 1985.

The thrust of economic liberalization is the greater role assigned to private sector in economic activities. Until 1984 A. D. there was only two governments owned commercial banks in foreign collaboration. As a result, Nepal Arab Bank Limited was established in 1984 A. D. as the first joint venture bank. From last few years the banking and financial sectors have made a rapid progress.

**Table 1.1**  
**Rapid Growth of Financial Sector in Nepal**

<b>Sector/Bank</b>	2027	2037	2047	2057	2067
Commercial Bank	2	2	5	13	30
Development Bank	2	2	2	7	85
Finance Company		0	0	47	69

*(source:www.nrb.org.np)*

Bank refers to a financial institution that is engaged in the business of financial services which could be in the form of handling cash, handling cash instruments, understanding financial commitments and providing finance related consultancy services. The function of banks are not only to accept deposits and grant loans but they also includes wide range of services to the different strata of society to facilitate the growth of trade, commerce, industry and agriculture of national economy and in the absence and insufficiency of banking and financial facilities, the growth of the economic development becomes slow. Thus, the banks play an important role in the economic development of a country.

Commercial banks collects deposit from public in various forms and lend the same as investment. Moreover they also provide technical support, administrative suggestion, cheap remittance of funds, safekeeping of valuables, collection of bills, cheques, overdraft facilities to industries and commerce. Whenever banks lend money they must remember that the source of their fund is customers deposits. Therefore it is

almost importance that the subsequent leading should be of minimal risk. Banks have often been criticized for not lending more freely. But higher risk of loss is the deterring factor on granting advances despite the availability of option of changing higher interest rate.

Since there is very small manufacturing base to invest for bank in larger scale, it is essential to divert the business of those financial intermediaries to other areas such as retail banking. Thus influencing the growing demand for better commercial complexes and home projects in Kathmandu and the city area has become the central point of commercial activities in Nepal.

Thus the various needful factors like development of planned cities, development of market places has to be realized. The establishment and emergence of commercial complexes and residential home has become vital. Because of increasing population and centralized opportunities in Kathmandu valley, more and more houses are built in every year. With the view of 20 years development project of Kathmandu valley, the proper management and implementation of systematic town planning can be undergone through the construction of home apartments.

The Government has emphasized up on the promotion of home sectors as an important medium for economic development, poverty alleviation and to uplift the living standard of the people. Similarly, in order to strengthen the existing home system by making the home sector self-reliant, the government will make people abide by law and play the role of catalyst and facilitate and promote the role of private sector. As per the Kathmandu valley town planning committee, the government has been encouraging the private sectors to carry out the construction of huge complexes along with the government mutual participation if required .

The rising cost of land and building material have also made access to home more difficult. Shortages and speculative practices have helped drive up the prices of urban land. Lack of foreign currency reserves and tightening world credit conditions have constrained the importation of building material components and ingredients, thus helping to create domestic shortages and together with the effects of currency devaluation, driving material prices up. Also home and rental scarcities induced by

the continuing to the informal shelter sector, have made access more difficult and expensive then need be .Under these circumstances of increasing demand for demand for home facilities but deteriorating financing choices and increasing purchase power has created an immense void for proper home loan scheme. Considering these demands, most of the banks are to provide Home Loan.

Due to growth on banking sector in Nepal and huge competition, opportunity for investment are comparatively losses. The main function of the commercial bank is to collect deposit from the depositors and to invest on profitable sectors by minimizing risks. These days the commercial banks are moving towards the Retail banking sectors like Home Loan, Education Loan, Professional loan and Home loan etc because of low risk and lack of proper and secured investing sectors. Home loan is one of the important investing sectors of financial institution. These days, most of the commercial banks and other financial institutions are providing home loan which helps to develop the home in Nepal.

Our prime focus is to study about the home loan disbursed by the bank. It might be due to very slow growth of industrial sector, the attraction toward home loan financing is growing day by day among the commercial banks. Home loan financing is basically financing for outright purchase of home, purchase of land and construction of home or construction of home in existing land and renovation of the existing loan. The home loan is approved to the customer if his income source justifies the repayment of principal and loan installment. The banks take the home being constructed as collateral for the loan financed (Joshi, 1999: 178).

### **1.1.1 Profile of the Banks under Study**

As a number of commercial banks have been established in Nepal, the research has been taken into consideration of Bank of Kathmandu and NABIL Bank. In general the major functions performed by the commercials banks can be summarized as follows:

- Receiving deposits from public
- Making loans and Advances
- Agency Service

- General utility service
- Other ancillary services like remittance, ATM Card/Credit Card etc

Besides performing above stated functions, the banks tailor the products and services as per their strategy to gain competitive advantage in the market. The profiles of the banks under study and the products offered by them are briefly discussed below:

- **NABIL Bank**

NABIL Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. NABIL was incorporated with the objective of extending international modern banking services to various sectors of the society. Pursuing its objectives, NABIL provides a full range of commercial banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

NABIL as pioneer in introducing many innovative products and marketing concepts in domestic banking sector represents a milestone in banking history of Nepal as it started an era of modern banking which customer satisfaction measured as a focal objective while doing business.

Operations of the bank including day to day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world renowned software from Infosys Technologies system Bangalore, India, Internet banking system and Telebanking system.

### **Product and Services**

- Loan
- Working capital Fixed capital Import.
- Bills discounting facility under suppliers credit Export loan, Hire purchase.
- Project Finance, Consortium/Syndication Loan.
- Mortgage loan, loan against deposit and Government securities.
- Housing Finance, Auto finance, Nabil property.

- Personal finance.
- Trade Finance: Import L.C., Export L.C., Forward contract, Bid Bond, Performance Bond, Counter guarantee, Advance Payment Guarantee, Shipping Indemnity.
- Deposit: Current, Call, Time, Normal, Savings, Lok bachat, Nabil Bachat, Student Saving, Student Saving, Bal Bachat, Jestha Bachat, Jestha Muddhati, Retirement Fund, Provident Fund, Miss Nepal Nari Bachat
- Remittance: SWIFT Transfer, Western Union, E-Remittance, Travelers Cheque, Bank Draft, Mail Transfer, Managers Check
- Cards and ATMs
- E-Banking
- Clean Bills

*(Source: Website of Nabil Bank)*

- **Bank of Kathmandu**

Bank of Kathmandu Limited is a culmination of a comprehensive vision of the promoters to take the Nepalese economy to a newer realm in the global market. Each promoter of Bank of Kathmandu has successfully demonstrated leadership skills, business acumen and entrepreneurial talents in his/her respective field.

Incorporated in 1993, Bank of Kathmandu came into operation in March 1995 with the following predominant objectives:

- Identify business prospects not yet catered by then existing commercial banks and offer new banking products and services
- Introduce modern banking technology facilitating bank and business operations and transactions

Bank of Kathmandu's activities globe around deposit mobilization, advancement of various credits, international banking including trade financing, inward and outward remittances and funds and portfolio management. Bank of Kathmandu is committed to providing products and services of the highest standards to its customers by understanding their requirements best suiting the market needs. In pursuit to deliver the products and services of the highest standards, Bank of Kathmandu has state-of-art technology for appropriate and efficient Management Information System (MIS)

and rendering quality services, VSAT and Radio Modem for networking, SWIFT for international trade and transfer of funds around the world, correspondent banking relationships with over 200 banks worldwide for effective and proficient execution of international trade and remittance activities, gamut of corporate and retail banking products and services and centralized banking operations for better risk management, consistent service deliveries and lowering operating cost.

**Product and Services:**

- Corporate banking
- Business Banking
- Retail Banking, Project Financing
- Small scale project finance
- Housing Loan
- Trade Financing, Trade finance, Vehicle loan, saving
- Working capital financing, other business credit, Education loan
- Syndicate loan arrangement, foreign employment loans
- Consortium loan, Festivity loan

*(Source: website of Bank of Kathmandu)*

**1.2 Focus of the Study**

Commercial banks help to uplift the economic growth of the nation by investing in different sectors. A home is the basic requirement of the human being .In today’s circumstances, it become difficult for persons to have a home .But the bank’s scheme of home loan make it easier. Thus the main focus of the study is to examine and analysis of home loan of two sample commercial banks i.e. NABIL and Bank of Kathmandu and to find the proportion of home loan to total loan and advances of these banks. Moreover, the study also focus on the evaluation of the competitive factors of the banks in the Home Loan market. So an independent study in this sectors wherein the facts regarding the available facilities put forward by two commercial banks are analyzed in detail, will help people find their way to the solution for their investment for the home.

### **1.3 Statement of the Problem**

Government introduced the liberalization policy. Many banks and financial institution and other institution are established rapidly. These days many commercial banks, developments banks and financial institution are operating their work to assist in the process of economic development of the country. With the rapid growth in the banking sector, consumer lending has increased and becomes more and more competitive in the market. Consumer lending, specifically housing loan and home loan has increased rapidly due to lesser risk and higher profit involved.

Now a day, the demand for home loan is increasing not just due to increasing price of land, reduced household purchasing power, the rising cost of imported building materials but to the easy lending process, lesser EMI, longer tenure and more competitiveness and better service. The open market system has made the competition more rigorous and specifically due to less risk and more return, financial institution are aggressively marketing home-loan.

The home loan have a longer tenure .The longer tenure has been a sensitive issue with the customers and bank as a result in lower EMI (Equal Monthly Installment)which in turn maker loan affordable, thus the competition is very high in the market.

Besides this, the major problem that banks are facing is the events of default from its customer's. In order to minimize such defaults, many banks have formed collection unit but the recovery seems to be minimum. Thus in spite of the home loan market, banks should undertake measures to minimize risk of default.

Moreover, the recent announcement of Nepal Rastra Bank related to home loan has also made a big barrier in providing home loan by the bank

- What is the position of home loan of sample banks?
- What is the proportion of home loan on total loan and advance?
- Does the relation between total loan and advance with respect to home loan is significant?
- Whether they are to able to provide home loan to their customers at lowest cost or not?

#### **1.4 Objectives of the Study**

For any kind of research work or study, the objectives must be determined. It shows the way to achieve desired goals. The main objective of this research work is to examine, interpret and analysis the home loan procedures adopted by two banks (i.e. NABIL and Bank of Kathmandu). This study is also concerned with whether the banks are adopting efficient policy or not .The general objectives related to this study are presented as below:

- To examine the position of home loan of sample banks.
- To evaluate the relationship between Total Loan and Advances and home loan.
- To analyze the contribution on the profitability of banks and trend analysis of Total Loan and Home Loan.
- To evaluate the competitive factors of the banks in the Home-Loan market.

#### **1.5 Significance of the Study**

Research is systematic investigation and study of the facts to locate and analyze the problem and formulate the corrective steps to solve that problem. This statement describes the importance of research.

Home loan is one of the important functions of the commercial banks in Nepal. It helps to grow the economic condition in a country. This study in this sector helps several stakeholders, banking sector, and researcher, individual who will carry out research work in commercial banks and who has been interested in Nepalese economy. The private sector who is constructing different home projects and even general people are still derived of owning their houses. So, an independent study in this sector will help people find the solution for the investment in their home. By the help of this study, general public can know the home loan activities of the banks. It is beneficial for the government while formulating policies and rules regarding home loan. The study of home loan would provide information to the management of the concern banks that would help to take the corrective action in the banks activities. This study provides valuable information that is necessary for the management of the banks, shareholders, general public and related part.

## **1.6 Limitation of the Study**

The study and outcome of the study is the individual's effort. Every individual faces certain limitations while doing research .So this study also has limitations which are as follows:

- This study is based on primary as well as on secondary data. Accuracy depends upon the data collected and provided by the banks.
- Limited time and resource are major constraint. Only five fiscal years (2006/2007-2010/2011) have been taken for the study.
- Out of 32 commercial banks only 2 banks are taken as sample.
- Out of many types of loan, this study is based on home loan.

## **1.7 Organization of the Study**

This study has been divided into five chapters. They are Introduction, Review of Literature, Research Methodology, Presentation and Analysis of data and Summary, Conclusion and Recommendations.

### **Chapter I- Introduction**

This first chapter include the information part of this study as already mentioned which describes the background, statement of problem , focus of the study, objective of the study, significance of study, limitation of the study and organization of the study.

### **Chapter II-Review of Literature**

This chapter describes theoretical analysis and brief review of related and pertinent literature available. It includes a discussion on the conceptual framework and review of the major studies.

### **Chapter III- Research Methodology**

The third chapter describes the research methodology enjoyed in the study. This describes the matter and sources of data, population and sample mode of analysis, running and definition of statistical tools.

#### **Chapter IV-Presentation and Analysis of Data**

The fourth chapter is analyzing chapter, which deals with presentation and analysis of relevant data through definite course of research methodology with financial and statistical analysis related to retail banking of related banks and presents the findings of the study.

#### **Chapter V- Summary, Conclusion and Recommendation**

The fifth chapter is the last chapter of the study, which concerned with the summary of the data, conclusion and recommendation of the study for the implementation in the future.

The bibliography and appendices has been incorporated at the end of this study.

## **CHAPTER - II**

### **REVIEW OF LITERATURE**

This chapter is basically concerned with review of literature relevant to the topic under discussion via “A study of Home Loan of NABIL Bank Ltd. and Bank of Kathmandu”. Every study is based on the past knowledge. Previous studies are very important because they provide foundation to the present study. There must be continuity in research studies. This continuity in research is ensured by linking the present study with past research studies. This chapter describes the conceptual framework and highlights the past literature that is available in concerned subjects as to my knowledge and the information gathered from the relevant sources.

#### **2.1 Conceptual Framework**

A conceptual framework is a statement of generally accepted theoretical principles which form the frame of reference for the study.

##### **2.1.1 Commercial Bank**

In the context of commercial bank, commercial banks are those banks that pool together the savings of community and arrange for their productive use. In the process of such intermediation commercial bank plays funds raised from different sources into different assets with prime objective of profit generation on administrative assistance. According to commercial bank act 2031 “Commercial banks are those banks which are established under this act to perform commercial function” .They supply financial needs of modern business.

The commercial bank has its own role contribution in the economic development. It is a resource for the economic confidence of various segments and extends credit to people. These banks are established to improve people’s economic welfare and facility, to provide loan to offer banking services to the people and the country. It provides internal resources for developing economy. It collects diversified capital from different parts of country through its own branches. American institution of banking (1972 AD) defines commercial bank as corporation which accepts demand

deposits subjected to cheque and makes short term loans to business enterprises regardless of the scope of its other services.

The main purpose of establishing RBB was to contribute to the development of banking system, particularly in the remote and hilly regions providing more banking facilities to the public.

### **2.1.2 Functions of Commercial Bank**

Bank can be defined according to the function they perform. Bank established with prime objective of profit maximization. To achieve this, bank performs various functional activities. Principally commercial bank accepts deposits, provides loan, primarily to business firms these by facilitating the transfer of funds in the economy. However in the previous year's banks were viewed as acceptor of deposits and provider of loan but modern commercial banks have to perform for overall development of trade commerce, industry, agriculture, including priority and dependent upon banking. So we do not have doubt to say that the main objective of commercial banks is to ease profit by performing various functions. Following are the main functions performed by the commercial banks.

#### **a. Accepting Deposits**

The main function of commercial bank is to accept deposits from the public in different types of deposit account. Generally a bank accepts deposit in three forms namely saving, current and fixed deposits.

##### **i. Current Deposit**

The account in which any amount can be deposited and with drawn at any time is known as current account. In this account banks do not give interest to the account holder. These days the bank under this account as per their own rule has determined minimum limit of deposit.

##### **ii. Saving Deposit**

Saving account is managed to collect the small savings of people. This account can be opened with nominal amount. The main purpose of this account is to promote the

saving habit of the people. Limited amount can be deposited and withdrawn from the bank in the specified time. Bank provides nominal rate of interest in this account.

### **iii. Fixed Deposit**

A fixed deposit is one where a customer required keeping a fixed account with the bank for a specific period of time providing higher rate of interest. Amount cannot be withdrawn from bank before the expiry of time. The banker knows the time when the bank is free to make use of this money for granting loans and advance. In case of emergency he is permitted to borrow money on the security of his fixed deposit account holder can take loan against the security deposit of it paying 2% extra deposit.

### **b. Advancing Loan**

The second major function of commercial bank is to provide loans and advance form the money which receives by way of deposits. Direct loans and advances are given to all types of person against the security of movable and immovable properties. The banks in the following forms grant the loans.

#### **i. Overdraft**

An overdraft is an arrangement by which the customer is allowed to overdraw his account against some collateral security. The customer is charged interest only on the amount by which his current account is actually overdrawn and not by the full amount of the overdraft sanctioned to him by the bank.

#### **ii. Cash Credit**

Cash credit is provided against the security of goods or personal security. The amount of the loan is credited to the current account of the borrower. The borrower can withdraw money through the changes according to his requirements. But he has to pay interest on the full loaned amount.

#### **iii. Direct Borrows**

The banks against the security of movable or immovable assets provide direct loans. The borrowers are required to pay interest on the entire amount of loan sanctioned from the date of taking the loan to the date of repayment.

#### **iv. Discontinuing Bills of Exchange**

If a creditor holding a bill of exchange wants money immediately, the bank provides him money by discontinuing bills of exchange. If deposited the amount of the bill in the current bank undertakes the payment of subscription, insurance premium, rent etc and collection of cheques, Bills, promissory notes, draft, salaries, pensions, dividends, interest etc on behalf of the customers. It also acts as a correspondent or representative of its customers, other banks and financial corporations.

#### **c. Credit Creations**

The most important function of the commercial banks is to create credit. In order to earn profits they accept deposits and advance loans by keeping small cash is reserve for day to day transactions. When bank advances a loan, it opens an account to draw money by cheque according to his needs. By providing the loans to different persons or business firm the banks create credit.

#### **d. General Utilities Services**

Apart from agency services the commercial bank also some other useful services which are known as general utility services. They can be explained as follows:

##### **i. Assist in Foreign Trade**

The bank assists these traders who are engaged in foreign trade. The discounted bill of exchange drawn by Nepalese exporter on the foreign importers and evaluates the exporters to receive money in the home currency. Similarly he also accepts the bills drawn by foreign exporters.

##### **ii. Safekeeping of Valuables**

The bank receives valuables such as securities, jeweler, and documents of title to goods etc from its customers for safe custody. The bank acts as the custodian of the valuables belonging to customers. He receives them and returns them.

##### **iii. Making Venture Capital Loans**

Banks have become active in financing the start up costs of new companies particularly in high tech industries. Because of the added risk involved in such loans,

this is generally through a venture capital firm that is a subsidiary of a bank holding company and other investors are often brought into to share the risk.

#### **iv. Offers Security Brokerage Service**

At present, financial market place, many banks are striving to become true ‘financial super market’ offering a sufficiently wide array of financial services to permit customers to meet all of their financial needs at one location. Because of this reason banks began to market security brokerage. Services offering customers get an opportunity to buy stocks, bonds and other securities without having to go to security dealer.

#### **v. Financial Advising**

Bankers have long been asked for financial advised by their customer mainly when it comes to the use of credit and the saving as investing of funds. Many banks offer very useful financial advisory services from helping financial to consulting to business manager and checking on the credit standing of firms.

#### **vi. Offering Investment Banking and Merchant Banking Service**

Today banks are following in the footsteps of leading financial institutions all over the globe in offering investment banking and merchant banking services to corporations. These services include identifying possible merger targets, financing acquisitions of other companies dealing in security under providing strategic marketing, advice and offering hedging services to protect their customers against risk from fluctuating world currency prices and changing interest rates.

Asian Development Bank’s involvement in housing in Mongolia is justified by:

- large demand for adequate housing and shelter which essential for survival of the households particularly for the poor is given the extremes of the Mongolian climate
- the significant health benefits that will accrue from better and improved basic infrastructure and

- The inter linkages between the financial, banking housing and construction sectors that will be strengthened and substantial employment opportunities that will be created.

Basically conceptual framework describes the following areas of the study which are closely to the research work (Joshi, 1999: 182).

## **2.2 Concept of Loan**

The term credit has been defined as the amount of money lent by the lender to the borrower either on the basis of security or without security. Loan means a thing that is lent especially a sum of money. Loan management is the most important aspect of every bank and different financial institutions. Loan is the sum lent to others for certain time period with the agreement to charge interest on principal. The interest is charged calculating certain percentage on the principal. When money belonging to one is advanced to another to be used for certain period of time, it is called loan.

### **2.2.1 Types of Loan**

Banks make a wide variety of loans to a wide variety of customers for many different purposes. For customers the cause of loan purchasing may be investment in business, purchasing automobiles. Taking dream vacations, purchasing college educations, constructing houses and office building etc on the basis of the purposes loan can be divided into following categories:

#### **i. Housing Loan**

It is the credit extended to purchase or improve real property such as land and buildings. Such loans are secured by real property- land and other structures. Housing loan includes long term loan to finance the purchase of farmlands, houses, apartments, commercial buildings.

#### **ii. Commercial and Institutional Loan**

These types of loan are extended to business firms to support production and distribution of their product and services.

### **iii. Individual Loans**

This is the loan extended to individuals for house hold purposes; they include purchase of automobiles, machinery, kitchen appliances etc.

### **v. Miscellaneous Loan**

All those loan that are not included in above classified fall in this category.

## **2.2.2 Principal of Sound Lending and Investment Policy**

Income and profit of the financial institutions like commercial banks and finance companies depend upon its lending procedure, lending policy, investment policy of collected fund in different securities, The greater the credit credited by the bank, higher will be the profitability. Some required features of sound lending policy and investment policies are explained as below:

### **i. Safety and Security**

Financial institutions should inlet their deposit in profitable and secured sectors. They should not invest their fund in securities of those of companies whose securities are too much depreciated and fluctuated because of risk of loss factors. They should accept those securities which are marketable, durable, profitable, and high market price as well as stable. In this case MAST should be applied while making investment on any sector where M marketability, A ascertain ability, S stability, T transferability.

### **ii. Liquidity**

Liquidity is the position of the firm to meet current or short term obligations. General public or customers deposit their savings at the banks in different accounts having full confidence of payment by the bands wherever they require. To show a good current position and maintain the confidence, every firm must keep proper cash balance with them while investing in different securities and granting loan for excess fund.

### **iii. Profitability**

To maximize the return on investment and lending position, financial institutions must invest their collected fund in proper sectors. Finally they can maximize the volume of their wealth. Their return depends upon the interest rate, volume of loans, its time period and nature of investment on different securities and sectors.

#### **iv. Purpose of loan**

Banks and other financial institutions must examine why loan is required to the customer. If customers do not use their borrowing, they can never repay and the financial institutions will have bad debts, so they should collect detailed information about the plan and scheme of the borrowing.

#### **v. Legality**

Each and every financial institution follow the rules and regulation of the company, government and various directions supplied by NRB, Ministry of finance and while issuing securities and mobilizing their funds. Illegal securities will bring out any problems to the investors. Lastly the reputation and goodwill of the firm may be lost.

#### **vi. Tangibility**

A commercial bank should prefer tangible security to an intangible one. Though it may be considered that tangible property does not yield an income apart from intangible securities which have lost their values due to price level inflation.

#### **vii. Diversification**

A firm can invest its deposit collection in various securities to minimize the risk. So all the firms must diversify their fund or make portfolio investment, Diversification helps to earn a good return and minimize the risks and uncertainty. So the firms are making portfolio investment with different securities of different companies (Thapa and Rana, 2011: 159).

### **2.2.3 Meaning of Some Important Terminology**

#### **i. Assets**

Assets are the valuable and important properties of the firm and represent economic resources. All the assets should be measured in monetary term, which help to earn future benefits to an organization such as building, debtors, marketable securities patents, goodwill etc. In the firms there may be tangible and intangible assets as well as fixed and current assets to run the activities properly and for the smooth operation.

## **ii. Liabilities**

Liabilities are the amount of debt payable in future by the firm to its creditors. Liabilities represent the obligations to make payments through cash of bank or provide goods and services in future, e.g. creditors, bills payable, loan outstanding expenses, overdraft etc.

## **iii. Balance Sheet**

Balance sheet is a financial statement, which is prepared at the end of each accounting year, which contains assets, liabilities, owner share capital. It shows the actual financial position of the organization, the efficiency of all assets and liabilities separately. Broadly speaking, it shows three things, they are the nature, and value of assets, the nature and value of liabilities and the position of capital.

## **iv. Income Statement**

It is a statement, which summarizes and provides the information about revenues and expenditure of the organization during the accounting period. It contains real income and expenditures during the fiscal year. Income statement contains all the items of revenue, gains, losses and operating expenses incurred in carrying on the business and selling and distribution of the goods for the particular accounting period which gives the amount of net profit.

## **v. Off Balance Sheet Transaction**

Off Balance Sheet transactions are the future agreement concerning with bills purchase, letter of credit and guarantee which are treated as liabilities.

## **vi. Share**

The part of capital owned by a shareholder is called share. These shares are transferable in nature. Thus, any person can be the number of the company by purchasing the certificates of investment on company and withdraw his/her shares through which company can collect capital.

## **vii. Bond**

A bond is the source of long term financing or long term promissory note issued by an organization under which borrower agrees to pay interest as well as principle on specific date to the lender . It is of two types: i.e. mortgage bond and debenture.

### **viii. Securities**

Securities are the main sources of long term financing which involves shares and debentures issued by the company or government and redeemed in future with interest.

### **ix. Deposits**

Financial Institution collects deposit from the customers in various accounts like current account, saving account and fixed deposit account. Therefore the sum of money collected by the financial institutions from the depositors in various accounts is called deposits. Deposit is the main source of fund of financial institutions.

### **x. Loans and Advances**

Loan and advances, and overdraft are the main sources of income for a firm. Bank deposits can be crossed beyond a desired level but the level of loans and advances and overdraft will never cross it. Commercial and other financial institutions may take more preferential collateral while granting loans and advances. Some portion of loan and advances and overdrafts includes that amount which is given to staffs to the banks as home loan, vehicle loan, personal loan and other.

### **xi. Liquidity Position**

It is the states of owing things of value that can easily be changed into cash. Liquid assets determine the liquidity position of the organization and higher the liquidity assets, better would be the liquidity position.

### **xii. Interest**

Interest is that additional source of money of charged on borrowing or paid to someone cost on sacrificing the saving from own state for certain period.

### **xiii. Retained Earnings**

It is the certain portion of the firm's earning, which is kept for the future use or contingencies. It is on internal source of financing.

### **xiv. Variance**

The square of standard deviation is called variance and it is devoted by ' $\sigma^2$ '. It is one of the statistical tools, which is used to analyze the data for the study.

#### **xv. Standard Deviation**

Standard deviation is the positive square root of the mean of the deviation taken from the arithmetic mean, which measures the variability of a set of observations. It is usually denoted by the ' $\sigma$ '.

#### **xvi. Coefficient of Variation**

Coefficient of Variation (C.V) is the proportion of standard deviation with mean and multiplied by 100. It can be defined by:

$$CV = \frac{\sigma}{\bar{X}} \times 100$$

The CV measures risk of home loan in per unit.

#### **xvii. Mean**

A mean is the average value formula is the sum of all the observations divided by the number of observations divided by the number of observations and it is denoted by ' $\bar{X}$ '. The formula is:

$$\bar{X} = \frac{\sum X}{N}$$

#### **xviii. Correlation**

Correlation is one of the statistical tools, which measures the relationship between or among the variables, which doesn't explain the causes and effects relationship between the variables. It explains that two variables are correlated if the changed in one variable results in a corresponding change in the others. It can be categorized into two groups i.e. Positive correlation and Negative correlation.

### **2.2.4 Assets and Liabilities of Commercial Banks**

Balance sheet of a bank mainly comprises of the items as listed below in the assets and liabilities side:

#### **Assets of a Bank**

Brief discussion of the assets of commercial bank is done here under which could be helpful during the course of the study.

- **Cash**

Cash is the first asset in the portfolio of a commercial bank. Cash is completely liquid form of an asset which refers to cash in hand and cash with in the central bank. Cash is held to meet the demand of the customers .C ash is the primary reserve of the bank and the bank knows by its experience that is must keep a certain percentage of its deposits, liabilities in the form of cash in its vault will central bank and some portion with other commercial banks for their interbank adjustments. The cash reserve with central bank and other banks are equally good as cash lying in its vault.

The success of bank depends on the maintenance of adequate cash reserve required to honor the cheques presented by the customers. A bank usually synchronizes the deposits and withdrawal through investigations and research. A commercial bank has to manage these two in such a way that the good banker always keeps an extra amount of cash for the sake of safety .However the bank must avoid excessive holding of cash since it is an idle asset and do not generate any income.

- **Money at Calls and Short Notice**

The amount of all interest bearing placement with other banks (local or foreign) with maturity period of not-exceeding 7 days with stipulated, condition for payment at call or short notice (48 hrs) are exhibited under this head.

- **Bills Discounted and Purchased**

Commercial Banks prefer to invest in bills for several reasons. The bills are negotiable and can be bought and sold easily. Bills may be promissory notes, bills of exchange or treasury bills. Commercial banks prefer to have this type of assets due to its liquid nature. That is this can be easily marketed and they also bring some revenues to the bank. Most of the bills are eligible for rediscount at the central bank. This enhances the liquidity of the bills. They are regarded as the ideal bank assets because they satisfy the principles of liquidity, safety and profitability.

- **Investments**

Investments constitute a banker's third line of defense after cash and bills discounted. Investments yield a higher return than that obtained from liquid assets but is less than

loans and advances. Banks invest their large proportion of their funds in government securities and other gilt edged securities. These securities can be converted into cash easily and without much loss of value. But the banks do not prefer to invest their funds in corporate share and debentures due to risk involved in them. The commercial banks of Nepal also make considerable amount of investments in government treasury bills and bonds.

- **Loans and Advances, Credits and Overdrafts**

Loans and advances are the most profitable of all the assets of all commercial banks. This is the primary source of all the assets of the banks. Loans and advances account for the largest willing to lend as much of its funds as possible. But it has to be careful about the safety of such advanced as well. If the bank is too liberal, it may be influenced by bad debts whereas its timidity may fail to obtain adequate returns from the allocated funds for it. In the mean time, they are the least liquid of all the assets. In the other words, it is very difficult to realize them at short notice except those which are repayable on demand. Therefore a bank cannot rely on such funds at the time of emergency.

- **Fixed Assets**

All assets of long term nature (fixed) owned by the bank are accounted and exhibited under this head at the written down value after deducting the depreciation from the total cash. In case of disposal of the assets , sold or written for the purpose of determining profit/loss on such sale or writing off the fixed assets account will b credited with amount equivalent to the written down value , and the difference in cash receipt will be adjusted to profit/loss account.

Fixed assets are the least liquid assets of the bank such as land and building, vehicles, machinery owned by the banks. They cannot be considered as the liquid assets of the bank.

- **Other Assets**

Other assets of the banks include any other tangible and intangible assets, not mentioned above, stationery stock, accrued interest on investment, accrued interest on loan, sundry debtors, asset in transit, non banking assets, expenses not written off like prepaid expenses, development etc which are exhibited under this head.

- **Contingent Liabilities**

Claims on banks but not accepted by the banks the amount of the letter of credit opened, full value of immature forward exchange contract, the amount of acceptances and endorsement etc are disclosed under contingent liabilities.

### **Liabilities of Bank**

The liabilities of a commercial bank represent the sources of its funds, which are employed by the bank in the ordinary course of business . The items that appear in the liabilities side of the balance sheet are as follows:

- **Capital**

The authorized capital is the maximum amount of capital that a bank can issue under its memorandum of association. The issued capital is that capital which is issued for public subscription. Subscribed capital may be the whole of issued capital or its part called up capital is the amount that the shareholders required to pay .Paid up capital is the actual amount that the shareholders have paid. So the paid up capital is the actual cash capital of the bank. The difference between the called up capital and paid up capital is known as uncalled capital. It is an additional margin of safety for the depositors and creditors of the bank in case of their doubt about the financial situation of the bank.

- **Reserve Fund**

It is the presentation of accumulation of profits appropriated over a period of time. The objective of the reserve fund is to meet the unforeseen contingencies. The objective of the reserve fund is to meet the unforeseen contingencies. It is not made from the origin of capital of shareholders but by the profit generated by the bank. Generally, the amount of reserve fund is invested in first class securities. At the time of heavy losses by banks, this fund is used. In other words, the figure of the reserve presents an additional security of the banks to their customer's .Under this head, general reserve fund or the statutory reserve fund, share premium, other reserves and fund and accumulated profit/loss are presented.

- **Deposit**

This item represents the liability of the bank. Since the deposits are the borrowed amount from the deposits or from general public, it is the largest portion of the liability of the banks. A bank can call its deposits in various forms-savings; time, current or demand deposits etc. today different types of policy of the withdrawals of money from bank by depositors, similarly different interest rates are entitled for different types of deposits.

Deposits are the main source of fund which the banks usually use for the generation of profit, Therefore the efficiency for the banks depends on its ability to attract deposits. The capacity of the bank to earn profits depends on the volume and the deposit mix the bank has.

- **Bills Payables**

The outstanding amounts pertaining to draft TT nail transfer and pay orders issued by one branch to another branch of the bank as well as bill and drawn on the bank by other local and foreign banks are accounted under this head.

- **Borrowing from Other Banks**

It includes the amount which a bank has borrowed from other banks during the course of operation. For this the bank pays certain amount of interest to the lending bank.

- **Other Liabilities**

Other than the capital and liabilities accounts mentioned above , all other liabilities of whatsoever nature such as pension fund, insurance fund, unclaimed dividends, unexpired discounts etc are included under the heading.

- **Profit and Loss Account**

It is the balance of profits left after making all adjustment which also appears in the liability side of the balance sheet (ICAI, Study Material: 53, Bajracharya, 2053: 250).

### **2.2.5 Consumer Lending and Borrowing**

Among the most important of all financial markets are the markets providing saving instruments and credit to individuals and families. Many financial analysts have referred to the period since world war, IT as the age of consumer finance of loan able funds flowing into the financial markets today but system. Moreover the market for consumer financial services is the one market that every one regardless of profession or social status will enter at one time or another during his or her lifetime.

#### **Consumers and Lenders of Funds**

Each of us is a consumer of goods and services virtually every day of our life. Scarcely a single day passes that we do not enter the market place to purchase food, shelter, entertainment and other essentials of modern living, we are also well aware perhaps from personal experience that consumers often borrow heavily in the financial market place to achieve their derived standard of living. The groups of consumers are the most important lenders of funds in the economy. Consumers supply loanable funds when they purchase financial assets from the other units in the economy.

The most important household financial asset today is pension fund reserve built up by individual workers to prepare for their retirement. An ageing population has shown great concern in recent years that sufficient funds will be available when they retire to sustain their living standards; in the second place are holdings of corporate stock led by a dramatic rise in holdings of shares in mutual funds. The recent growth in household of common stock investment appears to reflect continuing fears about inflation. Then too many individuals are concerned that when they reach retirement, social security and other government pension programs will be inadequate to cover spiraling medical expenses and other living costs in their later years.

#### **Consumer or Borrower of Funds**

It has been noted that consumers provide most of the savings out of which loans are made and financial assets created in the money and capital markets, However it is also true that consumers are among the most important borrowers in the financial system. The total volume of household debt outstanding is huge in both absolute terms and relative through most other sectors of the economy. However to judge whether

consumer borrowing is really excessive that debt should be compared to the financial assets. Consumers hold these assets, principal payment which courses due on consumer borrowings.

### **Categories of Consumer Borrowing**

The range of consumer borrowing needs is enormous loan to the household sectors to support a more diverse group of purchase of goods and services than is true of any other sector of the economy. Consumer borrow long term loan to finance purchases of durable goods such as single family homes, automobiles and home appliances. They usually borrow short term to cover purchases of non durable goods and services such as medical care vaccines, food and clothing. Financial analysts frequently divide the credit extended to consumer into three broad categories.

Residential mortgage credit used to support the purchase of house or existing homes  
Installment credit used primarily for long term non residential purpose and Non  
installment credit used for shorter term cash needs

For and away the dominant form of consumer borrowing is aimed at providing shelter for individuals and families through mortgage loans. The volume of house mortgage credit flowing to household has grown rapidly in recent years with the attractiveness of home ownership as a tax shelter and with recent tax reforms that favor loans shared by borrower's loan.

Installment credit is the second major component of consumer debt. Installment debt consists of all consumer liabilities other than home mortgages that are relied in two or more consecutive payments usually monthly or quarterly. Lenders in these fields extend four major types of installment credit, automobile credit, revolving credit, mobile homes and other consumer installment loans. This kind of credit including the purchase of furniture and appliances, the payment of medical expenses the purchase of automobiles and the consolidation of outstanding debt, finances and incredibly wide variety of consumer goods and services.

The final major category of consumer debt is non installment credit which is normally paid off in a lump sum. This form of consumer credit includes single payment loans,

change accounts and credit for services such as medical care and utilities. The total amount of non installment loans outstanding is difficult to estimate because many such loans are made by one individual to another to another or by department stores, oil and gas companies and commercial banks however make a substantial volume of non installment loans to consumers and are considered the lending lender in this field.

### **Home Equity Loans**

One form of consumer borrowing that is closely related to residential mortgage credit is home equity loans like traditional home mortgage, a home equity loan is secured by a borrower's home. However unlike traditional home mortgages many home equity loans consist of a rearranged revolving credit line the borrower can draw on for purchases of any goods or services he or she wishes in varying amounts over the life of the credit line. So the customer can literally or presenting a credit card for purchase made up to a stipulated maximum amount known as the borrowing base. The borrowing base usually equals the difference between the appraised market value of the borrower's home and the unpaid amount of the mortgage against the home multiplied by a fraction of 70%.

Most home equity loan sales are linked to the bank prime interest rate plus and extra margin for risk (i.e. a floatation loan rate). The consumer protection act of 1998 prohibits a home equity lender from cancelling a loan unless fraud failure to pay or other violations of the loan control occur. Thus for most home equity loans have been used to pay off other debts make home improvements buy automobiles or finance an education.

Home equity credit has proved to be especially attractive to consumers lending institutions for a variety of reason. These loans tend to have a lower rate of default because borrowers tend to feel more responsible when their home is pledged as collateral and that collateral tends to have a more stable value. Moreover the cost of making home equity substantially lower than the cost of a series of short term loans made to the same customer. In addition, these loans usually carry rates that adjust to the market, whereas many other consumer loans have fixed interest rates. Finally home equity credits help the lender to build the working relationship with a customer

better than most other types of consumer loans , creating more of priorities for the lender to sell the customer additional services.

The borrower can repeatedly borrow, repay and borrow again because most home equity credit lines are revolving credit. However, if the borrower cannot make the loan payments his or her home may be reposed and sold to pay back the lender. Many financial experts recommended that consumers use home equity credit with caution, particularly when their future employment prospects are uncertain.

### **Consumer Lending Institution**

Financial intermediaries-banks saving and loan associations credit units and finance companies account for most of the loans made to consumer in the economy . Intermediaries also dominate the market for non-installment credit and make the bulk of home mortgage loans, Although each type of financial institution prefers to specialize in a few selected areas of consumer lending , there has been a tendency in recent years for institution to diversify their lending operations . One important result of this diversification has been to bring all major consumer lenders in to direct competition each other.

### **Commercial banks**

Commercial banks are the most important consumer lending institution. Commercial banks approach the consumer in three different ways by direct lending, through purchases of installment paper from merchants and by making loans to other consumer lending institutions. Roughly half of all banks loans to consumers consist of mortgages to support the purchase construction or improvement of residential dwellings the rest consist of installment and non-installment credit to cover purchases of goods and services. In the mortgage field, commercial banks usually prefer to make long-term permanent loans for family housing. Banks make a wider variety of consumer loans than any other lending institution. They grant almost half of all home loans extended by financial institutions to consumers each year. However most bank credit in the auto field is indirect installment paper purchased from auto dealers rather than being made directly to the auto buying consumer. Moreover, bank's leadership in auto lending has been challenged in recent years by finance companies and credit unions. Indeed, in many forms of consumer installment credit today, the lead of

commercial banks in threatened by challenged from aggressive non-bank leaders who see the consumer market as a key growth area for the future.

### **I. Finance Companies**

Finance companies have a long history of lending in the consumer installment field providing funds directly to the consumer through thousands of small loans offices and indirectly by purchasing installment paper from auto and appliance dealers. These active, household lenders provide auto loan and credit for home improvements and for the purchase of appliances and furniture. Finance companies often face state imposed legal limits of the interest rates they can charge for household loans and on maximum loan size.

### **II. Other Lending Institutions**

Other consumer installment lenders include credit unions make a wide variety of loans for such diverse purposes as purchase of automobiles, home repair and more recently mortgage credit for the purchase of new homes. Also important in the consumer loan field in recent years have been savings and savings banks which experiences dramatic growth in consumer lending but most recently have faced much slower growth and even decline due to inadequate capital and the public's fears about the long –run soundness of some of these institutions.

Although these institutions have long been dominant in residential mortgage lending, they have moved aggressively to expand their portfolios of credit card, education, home improvement –furniture, appliance and mobile home loans over the past decade.

### **Factor Considered in Consumer Loans**

Consumer loans are considered the most profitable uses of funds for most financial institutions. There is evidence, however that, such loans usually carry greater risk than most of other kinds of loans and they are most costly to make loan likewise. The lender often can offset these costs by charging higher interest rates. Consumer credit markets in many communities are less competitive than the market for business loans or for marketable securities giving the lender an advantage.

Making consumer loans is one of the most challenging aspects of modern financial management. It requires not only a thorough knowledge of household financial statements but also an ability to assess the character of the borrower. Over the years, most loan officers have developed decision “rules of thumb” as aid to processing and evaluating consumer loan applications. The duration of employment of the borrower is often a critical factor and money institutions deny a loan request if the customer has been employed at his present job for less than a year. Other most important aspect in the adequate collateral for the loan.

The past payment record of a customer usually is the key indicator of character and the likelihood that the loan will be repaid in timely fashion. Many lenders refuse to make loans to consumers who evidence “pyramiding of debt” that in borrowing from one financial institution to pay another. Evidence, of sloppy money handling, such as large balances carried on charge accounts or levy installment payment, is regarded as negative factor in loan application.

Loan officers are particularly alert to evidence of a lack of credit integrity as reflected in frequent late payments or actual default on past loans. Regardless of the strength of the borrower’s financial position, if the consumer lacks the willingness to repay debt, the lender has made a bad loan .Most lenders believe that those who own valuable property, such as land or marketable securities are a better risk than those who do not own such property. Moreover a borrower chance of getting a loan usually goes if he or she doesn’t bother with the lending institution. If more than one member of the family works, this is often viewed as a more favorable factor than if the family depends on one breadwinner who may became ill, die or loses a job. Having a telephone at home is another positive factor in evaluating a loan application because the telephone gives the lender an inexpensive way to contact the borrower. One way to lower the cost of a loan is for the consumer to pledge a bank deposit or other liquid assets as security behind the loan. The disadvantage here is that such security ties up the asset pledged until the loan is repaid.

### **2.2.6 Steps in Lending Process**

Most Bank loans to individuals arise from a direct request from customer who approaches a bank’s staff.

The lending process is as follows:

- **Potential Customer Approach to the Bank**

Loan process starts right from the time the customer walks into the bank with a request for loan .Until the customer is satisfied with the scheme, they don't borrow the money. So the customer approach the bank either to have loan or to have the full knowledge about the loaning scheme. During this step, if customer gets satisfied with the loan application form and the list of required documents which should be submitted with the loan application.

- **Loan Application**

A borrower submits a loan application a loan application to the bank along with required documents such as project proposal and company's legal existence for consumer loan. The bank can also approach customers as well to take advantage of business opportunities since no bank can afford to lose any profitable investment.

- **Interview with Banker**

Concerned personnel of the bank conduct direct interview with the applicant. Loan officer tries to gain as much as information as possible about Demographic, employment, financial details and purpose during the interview for determining the credit worthiness of the customers and analyzing the risk in lending. If the loan officer is satisfied the loan processing heads up and asked for more required documents otherwise the proposal is discarded in this step.

- **Submission of Necessary Documents**

Credit Personnel ask for other necessary documents if they are not submitted with the loan application. Then the credit file is created as it is a central as it is a central information source for everyone who works with the application.

- **Field/ Site Visit**

Authorized staff from credit department of the bank will visit business site with the attempt to comprehend the prospective customer and his business. According to the nature of the borrower and his business, field visit concentrated in attaining specific information. Production and cost related information are retrieved from the site visit

in case of manufacturing company. In case of trading company, information concerning applicant's reputation, character and his business and financial condition can be accessed from the related market.

- **Credit Appraisal / Analysis**

It is the critical examination of available information to conform that the customer satisfied the basic norms and policies. Designated officers from credit department will carry a detailed analysis of loan application information obtained from interview and site visit report. In this step, the designated officer's tries to find out that the customer is not a fraud or blacklisted within the bank or with other institution with the help of Credit Information Center (CIC) of NRB. They verify the information supplied by the customer is correct and authentic by doing the valuation of the property through the external agencies and by collecting and verifying documentary proofs for income, residence, age and the other information.

- **Inspection by Competent Authority**

Here the competent authority will forecast the risk, measure the return, consult with head office, and deals with bank government policy.

- **Approval/Rejection by Competent Authority**

Now the competent authority will make the decision of approval or rejection based on above two analyses. On the basis of loan amount the approval decision is carried either at the branch level or through the head office as the head office has determined the loaning power chart for its branch offices. In case of approval at branch level other necessary steps are taken and if the loan application is found beyond the authority of Branch Manager, a proposal is prepared and sent to the Head Office for the decision.

- **Documentation**

In case of approval at branch level, lending process will not be carried on until the borrower submits necessary documents to the bank. The need of documents depends on nature of loan and types of borrower which have been mentioned in the retail lending types. Documents should be recognized under the prevailing law and rules. General documentation of all kinds of loan includes demand promissory note, loan

deed ,and loan agreement, personal guarantee of the borrowers, guarantors, co-owners and mortgage deed i.e. Tamsuk.

- **Disbursement of loan**

After being satisfied with credit appraisal and security documentation mentioned in the offer letter, either a managerial cheque for the sanctioned amount is issued to the customer, or the amount is transferred to the customer account. A repayment schedule stating the amortization is prepared for the customer. Then the banks will charges up the loan acceptance fees and charges.

### **2.2.7 Loan Review**

The bank today use a variety of different loan review procedures, a few general principles are followed by nearly all banks. These include:

- Carrying out reviews of all types of loans on a periodic basis – for example, every 30, 60 or 90 days the largest loan outstanding may be routinely examined, along with a random sample of smaller loans.
- Structuring the loan review process carefully to make sure the most important features of each loan area checked, including:
  - The record of borrower payments, to ensure that the customers are not falling behind the planned repayment schedule.
  - The quality and condition of any collateral pledged behind a loan.
  - The completeness of the loan documentation, to make sure the bank has access to any collateral pledged and possesses the full legal authority to take action against the borrower in the courts if necessary.
  - An evaluation of whether the borrower’s financial condition and forecasts have changed which may have increased or decreased the borrower’s need for bank credit.
  - An assessment of whether the loan conforms to the bank’s lending policies and to the standard s applied to its loan portfolio by examiners from the regulatory agencies.
- Reviewing most frequently the largest loans, because default on these credit agreements could seriously affect the bank’s own financial condition.

- Conducting more frequent reviews of troubled loans, with the frequency of review increasing as the problems surrounding any particular loan increase.
- Accelerating the loan review schedule if the economy shows down or if the industries in which the bank has made a substantial portion of its loans develop significant problems.

Loan review is not a luxury but a necessity for a sound bank lending program. It acts as continuing check on whether loan officers are adhering to the bank's loan policy. Due to this reason, and promote objective in the loan review process, many of the largest banks separate their loan review personnel from the loan department itself. Loan review also help senior management and the bank's board of directors in assessing the bank's overall exposure to risk and its possible need for more capital in the future (Thapa and Rana, 2011: 168)

### **2.3 Review of Related Research**

**Himalayan Times (2010-06-12),** 'Home loans available interest rates hiked', the articles was based on the interest rates which showed that interest rates for home loans have escalated at an alarming rate in the past year. From a single digit figure to a double digit hikes, this significant change is subject to various speculations by different people; declining deposits against increasing credits, sky-high imports, investments across borders, liquidity crunch and the notorious yet frequent political problems in the country.

According to the new policy put forth by Nepal Rastra Bank, the banks have been instructed to limit their investments in real estate to 25 per cent by the end of fiscal year 2012/13. Thus, most banks have temporarily discontinued home loan facilities along with other personal loans..

Before the central bank's directive was imposed, the rate was 6.9 per cent and has gradually increased due to the changing scenario. Besides the competitive rate, the bank also offers excellent customer services. Hence, its popularity among the general mass, even though it takes 30 days to sanction a loan from Standard Chartered these days, as opposed to the 14 days in the past. After approval of the loan, the money is at

the customer's disposal within the allotted period. The bank endeavors to meet the increasing demands of its customers.

Nabil Bank--the bank that made most profits in 2009--is another bank offering home loans at an interest rate of 16 per cent. The bank offers a minimum loan of five lakhs but the sum could well go over a crore. Home loans are provided for house constructions, plot purchases, renovations and extensions and purchases of housings and apartments. After the loan is sanctioned, the bank pays 60 per cent of the total amount and 70 per cent of the total cost is provided for construction. Presently, other banks like Bank of Kathmandu and Nepal Investment Bank are not dispatching home loans. Buying a house is the dream of many, but poor planning can turn that dream into a nightmare in a heartbeat! As many folks have found out the hard way: the best mortgage advice knows what to expect before you sign. It's fine to want the best home you can afford, but be certain that it is affordable. There are lots of sources for mortgage funds that are available and should be considered. Be certain to compare equal terms, down payments, and loan types

#### **2.4 Review of Related Articles**

**Himalayan News Service (2011),** "What's cooking on the home loan front", Home loan seekers are suffering from the rise in interest rates on loans. According to bankers, the reason behind increasing the interest rate on loans is as per the guidelines issued by the Nepal Rastra Bank (NRB) to not increase the gap between the interest rates on different saving schemes over two percent. While the increase rate on deposits attracts depositors, those applying for loans are suffering badly. The real estate, which was once booming, is now facing major setbacks due to the new bank policies, including higher interest rates on loans.

Commercial banks are also aware of the problems facing the customers, but are helpless to do anything about it. "We just follow the directives of the NRB .Although such regular circulars and regulation are justified, its long term impact is still vague," says Surender Bhandari, chief executive officer of Siddhartha Bank. He adds, "One cannot say whether the rise on the interest rate in savings account will limit the interest rate on loans. This policy is yet to be implemented and we can comment about the probability of decrease in interest rate on loans only after that."

Housing companies are also affected by this problem, for they need to revise their loan policies in tandem with NRB. Prakash Bajracharya, director of Shangri-La Housing Pvt Ltd says, "NRB should not revise rules and regulations time and again as we developers and the customers face problems. NRB should instead concentrate on strengthening policies." He adds that it is not necessary to change the policies as soon as there is a change in the governor.

He is also concerned about the period of approving loans by banks. "Due to the delay in our loans being approved, we are facing cancellations of already booked apartments," says Bajracharya, adding that they feel 'something is cooking' in the banks policies regarding house loans.

**Republica: Editorial (2011),** "NRB's easier loan policy", article was related to the Nepal Rastra Bank (NRB) announcement of a set of measures aimed at breathing new life into the real and financial sectors that plunged into deepest recession after the central bank imposed a number of tough measures to cool down these overheated sectors.

Under the new decision, NRB will not count real estate loans of up to Rs 8 million extended to individual borrowers for purposes of house purchase. The central bank has been enforcing a much stricter set of rules for such loans than for loans to other sectors, to check a possible assets bubble. House builders expect that the extended loan limit, though less than what they demanded, will broaden their customer base, thereby helping revive housing sales that have been almost flat for some time.

Similarly, the central bank has also loosened conditions for renewing home loans extended by financial institutions and has allowed borrowers to renew such loans for another year after clearing only all outstanding interest liabilities. Earlier, borrowers seeking loan renewal were required to pay a quarter of the principal along with interest due. Bankers seem optimistic that the latest policy decision will have a positive impact on their profitability and financial health by reducing the pile of money they have been compelled to set aside from profits against possible loan loss

following a tumble in land prices and the failure of many borrowers to service their loans on time.

Similarly, NRB has also withdrawn the cap it had imposed on margin lending, loans issued against stocks as collateral, and has allowed financial institutions to issue loans on their own assessment. This is expected to revive the share market that hit rock bottom after NRB limited such lending to 60 percent of average market price.

## **2.5 Review of Unpublished Dissertation**

There are very few thesis and research work of the same kind and in the same field in Nepal, to knowledge of the researcher, various master level thesis conducted in different aspects of commercial bank such as lending policy, liquidity position, interest rate structure, capital structure, investment policy etc. These theses are more or less related to the field of this study. The review and the extract from them are presented below.

**Limbu (2008)**, in his study “*Credit Management of Nabil Bank Limited*” highlighted the objective of evaluation of liquidity position of the sample bank within 5 year study period.

### **The objectives are:**

- To examine the reason behind the banks increased funding in the housing sector.
- To examine the various factors that determines the demand for house loan.
- To explore the strategies of bank to match with the high growth of housing sector.
- To understand and determine the competitiveness among the banks in the housing sector development business.

### **Research Methodology:**

Secondary sources of data have been used to fulfill the objectives of research design. In the study, Secondary data are collected from the Annual Report of the concerned banks and their website, Nepal Rastra Bank Directives, Bank’s publications,

broachers and reports about home loan and journals published by views, magazines and newspapers and internet

His findings concluded that Nabil Bank Limited has been maintained a steady growth rate over this period.

- People were highly conscious about community life and sanitation facilities.
- This composition shows that there are more people taking loan who are living at the housing complex than purchasing house on cash basis.
- Also saving, salary, business, sale of property are also a major source of income for purchasing a house.
- Most of the respondents preferred to deal with NABIL for their home loan .
- The housing customers always have their choice of financial institution , through the housing complexes also provide such services to help people.
- The increasing trend in the housing sector is due to the remittance factor , Nepalese spending pattern which is high in house purchase and construction and internal migration of people due to conflict.

**Shrestha (2009)** in her study of,” *Comparative Study on Auto Loan of Nabil Bank ltd and Investment Bank ltd* ”, conducts research on auto loan of NABIL BANK and Nepal Investment Bank which is the growing field of consumer loan of banking sector. The major objectives of this study are:

**The objectives are:**

- To examine the position of home loan of sample banks.
- To provide suggestions for the improvements of Home Loan schemes.
- To evaluate the competitive factors of the banks in the Home-Loan market

**Research Methodology:**

Both primary and secondary sources of data have been used to fulfill the objectives of research design. In the study, primary data includes data collected from the questionnaire and interview with the respective personnel in the home-loan department of the respective banks. Similarly in order to know the competitiveness in the market interviews from the customers: who are the users of home loan is also

taken. Secondary data are collected from the Annual Report of the concerned banks and their website, Nepal Rastra Bank Directives, Bank's publications, brochures and reports about home loan and journals published by views, magazines and newspapers and internet.

**The major findings of this study are:**

- the study found that among various professional businessmen are the most willing to take auto loan from banks though prefer to provide auto loan to professionals like doctors and engineers due to their stable income and less default risk.
- the study concludes that married people are more prone to take auto loan and they mostly prefer to take loans for small family cars like Hyundai and Maruti
- Friends are the most influencing source of information people consider auto loan and similarly interest rate is the first and foremost thing that people consider while choosing a bank auto loan.

**Shah (2009)**, conducted a research study entitled "*Housing Loan Of Nepal Investment Bank Limited*". In general this study focuses and examines the increasing concerns of banks towards housing loans. The research and finding shall be beneficial to NIBL and any other financial institution involved in house loan business. The recommendations and conclusion part of this report shall be the bottom line results.

**The objectives are:**

- To examine the reason behind the banks increased funding in the housing sector
- To examine the various factors that determines the demand for home loan.
- To explore the strategies of bank to match with the high growth of housing sector
- To examine interest rate structures on housing loan of different banks

**Research Methodology:**

Both primary and secondary sources of data have been used to fulfill the objectives of research design. In the study, primary data includes data collected from the questionnaire and interview with the respective personnel in the home-loan

department of the respective banks. Similarly in order to know the competitiveness in the market interviews from the customers: who are the users of home loan is also taken. Secondary data are collected from the Annual Report of the concerned banks and their website, Nepal Rastra Bank Directives, Bank's publications, brochures and reports about home loan and journals published by views, magazines and newspapers and internet

#### **The major findings of this study are**

- It was found that most of the people living at housing complexes were business people, army personnel and then individuals working at banks. Out of 84 respondents 27 are business people and 16 army personnel.
- people were highly conscious about community life and sanitation facility
- The composition shows that there are more people taking loan who are living at housing complex than purchasing house on cash basis

**Dahal(2009)**, *“Loan Management of NIC Bank With Special Reference to Personal Loan”*. The basic objectives of the study are to have true insight in the loan management aspects of NIC bank. This aims to examine its efficiency, effectiveness, systematization and sincerity in personal loan.

#### **The objectives are:**

- To analyze the personal loan provided of NIC bank
- To present the overall loan management of NIC bank
- To analyzes the interest rate structure on personal loans to be issued
- To examine the demand of personal loan

#### **Research Methodology**

Both primary and secondary sources of data have been used to fulfill the objectives of research design.

#### **The major findings of this study are**

- due to unfavorable political environment and violence businessmen are reluctant to invest in business , so the volume of loan and advances is not in regular trend

and if loan is given, the problem of turning loan to non performing is another challenge that banks are facing

- Various risk like credit risk, interest rate risk, liquidity risk, price risk , foreign exchange risk, transaction risk and so are associated with lending
- the bank has increased its personal loan in each fiscal year and the personal loan has been dominated by Ghar Subidha rather than Sajilo karza

**Karmacharya (2010)** conducted a research study entitled “*Housing Finance in Nepal with reference to Everest Bank Limited and Kumari Bank Limited*”.

The main objectives of this research work are to examine, interpret and analyze the housing financing procedures adopted by two banks .This study is also concerned with whether the banks are adopting efficient housing financial policy or not .The main objectives related to this study are presented as below:

- To examine the position of home loan of sample commercial banks.
- To evaluate the relationship between Total Loan and Advances and home loan.
- To analyze the trend of Total Loan and Home Loan.
- To provide suggestions for the improvements of housing Loan schemes on the basis of findings.

In research methodology part, in order to get the concrete results from this research data were analyzed by using different types of tools. As per topic requirements emphasis is given on statistical tools rather than financial tools.

**The major findings and recommendations of this study are**

- where there is less investment opportunity in the country housing loan is one of the best avenues for investment
- Another factor hindering the growth of housing is its interest rate. So the sample banks are requested to lower down the interest rate for home loan
- the procedure to get home loan is quite tedious and lengthy , so it is suggested to make the procedure easy

- government should provide a regulatory climate conducive to the establishment of private specialized housing finance institutions by allowing them to compete effectively for savings and respond to market demand for loan rates
- Banks are suggested to be more aggressive in providing the housing loans with improved EMI, interest rate and payback period.

**Wagle (2010)** “*A study on loan and Advances of commercial banks with special reference to Nepal Investment Bank Limited and Nabil Bank Limited*” “The main Objectives of the study are to analyze the actual situation of loan and advances of selected banks. The specific objectives are as follows:

- To analyze the situation of loan and advances and lending capacity of Nabil Bank Ltd and Nepal Investment Bank Ltd
- To analyze the relationship of loan and advances with total assets, investment deposit ,loan, loss provision
- To analyze the situation of nonperforming loans
- To analyze the requirement of the role of NRB in the prospect of loans and advances

### **Research methodology**

Both primary and secondary sources of data have been used to fulfill the objectives of research design. In the study, primary data includes data collected from the questionnaire and interview with the respective personnel in the home-loan department of the respective banks. Secondary data are collected from the Annual Report of the concerned banks and their website.

### **The major findings of this study are**

- The analysis of loan and advances shows the irregular increments in loan and advances. The lending trend of both banks is in increasing trend, however the increments rate is not regular. We can take the increments in loan and advances of the subjected banks as the overall increments of banking industry. The average loan and advances of the NABIL is lesser than NIBL
- The volume of nonperforming loan of both subjected banks is irregular as the ups and downs in amount of nonperforming loan are often during the period.

The volume of nonperforming loan of any bank depends on the repayment of the loan installments or we can say it depends on the customers so the ups and down are obvious.

- The loan loss provision of NIBL is increasing every year, this may be due to increments in volume of loan and advances as for every loan out flowed 1% loan loss provision is compulsory due to degradation of loan. And loan loss provision of NABIL is not more fluctuate in the studied period.
- From primary data analysis, in context to the recovery status of the loans and advances of sample banks, majority of the respondents stated that the recovery is satisfied.

## **2.6 Research Gap**

There have been several researches done in loan. All of these researches have many useful findings and limitations. In most of the studies the analysis is based on quantitative factors and concentrates to find out the trend movement of home loan . So this study tries to find out the competitive factors for home loan along with trend movement of home loan and also tries to find out the impact of home loan on the profitability of bank.

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter highlights the methodology adopted to present the study. This chapter also mentions about the sources and limitations of the data collected for the purpose of the study. Thus research methodology indicates the methods and processes employed in the entire aspects of the study. Research methodology is the way to solve systematically about the research problem.

#### **3.2 Research Design**

A research design is the plan, structure and strategy of investigations conceived so as to obtain answers to research questions and to control variances .It is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of framework for the project that stipulates what information if to be collected, form which sources and by what procedures. Thus a research design is a plan for the collection, presentation, analysis and interpretation of data.

#### **3.3 Sources of Data**

Both primary and secondary sources of data have been used to fulfill the objectives of research design. In the study, primary data includes data collected from the questionnaire and interview with the respective personnel in the home-loan department of the respective banks. Similarly in order to know the competitiveness in the market interviews from the customers: who are the users of home loan is also taken. Secondary data are collected from the Annual Report of the concerned banks and their website, Nepal Rastra Bank Directives, Bank's publications, brochures and reports about home loan and journals published by views, magazines and newspapers and internet. The data related to the housing loan amount of past period was collected through the personnel visit and from their respective websites.

#### **3.4 Population and Sample**

Since this research attempts to portray the true picture of home loan in the market, it is directly related to banking industry. While talking about the banking industry there

are 32 commercial banks operating in Nepal. Considering the appropriateness of sampling, two of the major competing commercial banks of Nepal have been selected on simple judgmental basis specifically this method is used because the entire population can be listed. Hence sampling is done selecting from the population of 32 commercial banks out of which 2 banks are selected for the purposes of the study. The sample is as follows

- Bank of Kathmandu
- NABIL Bank Ltd

Moreover in order to understand the general customers view, a customer survey has also been conducted. This research also tries to show the competitiveness of the two banks in the product, home loan. So for the purpose, random sampling on judgment based method has been used. To gather the primary information small questionnaire survey has been conducted. A sample of 25 customers from each of the banks has been taken which means the total of 50 customers has been interviewed for the survey purpose in the study.

### **3.5 Data Processing Procedures**

For the purpose of this study, the data are collected from different sources as mentioned above. These collected data are tabulated under different heads for the purpose of the study and both financial as well as statistical tools are used for the analysis of the data. The instructions used for this research are mainly statistical as it shows in the pie chart and bar diagram of the surveyed questionnaire. In addition for further analysis, program like WORD and EXCEL has also been involved in the study.

### **3.6 Data Analysis Tools**

Analysis and presentation of the data is the core of each and every research work. In order to get the concrete results from this research data were analyzed by using different types of tools. As per topic requirements, emphasis is given on statistical tools rather than financial tools. So for this study following statistical tools were used:

### **Arithmetic Mean**

Arithmetic mean is the sum of all the observations divided by the number of observations. In such cases all the items are equally important. As arithmetic mean is most common, popular and widely used tool for data analysis here in this study also, arithmetic mean is used. It is computed by using following formula:

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N}$$

Where,

$\bar{X}$  = mean

$\sum X$  = sum of all variables

N = number of variables involved

### **Coefficient of Correlation**

The degree of relationship between two variables is identified by using this statistical tool. In other words, this tool is used to describe the degree to what extent one variable is linearly related to other variables. Two or more variables are said to be correlated if change in the value of one variable appears to be linked with the change in the other variables. Correlation analysis enables us in determining the degree and direction of relationship between the variables. Correlation may be positive or negative and range from -1 to +1. Simple correlation between the total loan and advance and housing loans is computed in this thesis. For this research work, following reference is used.

Correlation may be positive or negative and range from -1 to +1, where  $r=+1$  means perfect positive correlation and  $r=-1$  means perfect negative correlation and  $r=0$  means there is no correlation, and  $r<0.5$  means low degree of correlation,  $r$  between 0.7 and 0.999 or -0.7 and -0.999 means high degree of positive or negative correlation.,  $r$  between 0.5 and 0.699 means moderate degree of correlation

The simple correlation coefficient  $r$  is calculated by using following formula

$$r_{XY} = \frac{N \sum XY - (\sum X)(\sum Y)}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

Where,

- N = Number of observation in series X and series Y
- $\sum XY$  = Sum of the product of the observations in series X and series Y
- $\sum X$  = Sum of the observations in series X
- $\sum Y$  = Sum of the observations in series Y
- $\sum X^2$  = Sum of the square of observation in series in X
- $\sum Y^2$  = Sum of the square of observation in series in Y
- r = Karl Pearson's coefficient of correlation

A convenient and useful way of interpretation of the value of coefficient of correlation between two variables is to use the square of Coefficient of determination ( $r^2$ ). If the value of Coefficient of correlation  $r=0.90$ , then the Coefficient of determination  $r^2=0.81$  which means that 81% of the total variables in the value of the dependent variable has been explained by the change in the value of independent variable. It is much easier to understand the meaning of  $r^2$  than  $r$  and therefore Coefficient of determination is preferred while presenting the result of correlation analysis.

### **Trend Analysis**

The statistical test used in this study describes the trend of any variable whether it increases or decreases with passage of time. The formula of least square method is

$$Y=a+ bX$$

$$\text{Where } a = \frac{\sum Y}{N} \quad b = \frac{\sum XY}{\sum X^2}$$

Here  $Y_c$  was used to designate the trend value to distinguish from the actual value ,  $a$  is the  $Y_c$  intercept as the computed trend figure of the trend line or the amount of change in Y variable that was associated with a change of one unit on X variable represents the time.

### **Probable Error (P.E.) of Correlation Coefficient**

Probable error is an old measure of ascertaining the reliability of the value of Pearson coefficient of correlation. It depends upon the condition of random sampling methodology.

$$\text{P.E. (r)} = 0.6745 \times \frac{1-r^2}{\sqrt{n}}$$

The reason for testing the factor 0.6745 is that in a distribution 50% of the observation lies in the range  $\mu \pm 0.6745$ .

The Probable error is used to test whether the calculated value of sample correlation coefficient is significant or not. A few rules for the interpretation of the significance of correlation coefficient are as follows:

- If  $r < \text{PE}(r)$  is not significant
- If  $r > \text{PE}(r)$  is definitely significant

## **CHAPTER - IV**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 Introduction**

In this chapter data collected from the secondary sources are presented and analyzed by using the statistical tools and techniques. The analysis is fully based on primary and secondary data available and data are presented in tables, graphs and charts according to need. The available data are analyzed and interpreted so that the housing finance of banks can be evaluated easily.

#### **4.2 Analysis of Housing Finance scheme and Features of Sample Banks**

In this section, detail study is made about the housing finance scheme and its features of various banks. For this study only two commercial banks are considered because of various limitations.

##### **4.2.1 Bank of Kathmandu**

BOK is the pioneer in retail banking which includes auto loan, education loan, housing loan and consumer products. Consumer lending, retail credit products and banking services for individuals to avail of services that including housing loans, vehicle loans , education loans, foreign employment loans, festivity loans etc.

##### **Features of Housing Loan:**

Financing accommodation facility for individuals:-

Interest rate: 14% p.a-16%

Processing fee: 1%

Payment Fees: 0.5% p.a. if prepaid within year  
1% flat if prepaid after one year

Maximum Finance: 60% of eligible expenses (construction case and purchase case)

Repayment System: Equated Monthly Installment

Tenure: Maximum 20 years

#### 4.2.2 NABIL Bank Ltd.

Nabil bank are always attentive to their customers' needs and expectations and owning a home is a dream is a dream of the many who qualify for credibility but for want for funds cannot realize their aspirations. Nabil bank have understanding their customers financial needs come up with a Nabil Housing scheme with features of competitive interest rates, extended loan tenures, with flexible repayments and partial payment facilities. Their customers can avail themselves of whether it is purchase of land, construction, refurnishing or refurbishing, extension or purchase of ready-made house or purchase of home appliances.

#### Features of Housing Loan

Loan Amount	Loan Tenor	Financial Ratio
5 lakhs to 80 lakhs	up to 20 years	70% of distress value of property
5 lakhs to 80 lakhs	up to 20 years	70% of distress value of property
5 lakhs to 80 lakhs	up to 20 years	70% of construction cost
3 lakhs to 15 lakhs	up to 20 years	70% of renovation cost
5 lakhs to 80 lakhs	up to 20 years	70% of distress value of property

Other Features:

Collateral for all above products required

At least 8 feet wide, motor able access to the land

Land to be free of guthi or mohi

Land to be far from high tension line

Third Party Collateral - not acceptable

Prepayment & Service Charges :

2% of amount prepaid before 1 year

1% of amount prepaid after 1 year

Partial payment allowed after 1 year only

Service Charge: 1% of loan amount up front

Loan Documentation Fee :

NPR 1,500 up to NPR 1 million loan

NPR 3,000 up to NPR 10 million loan

NPR 5,000 above NPR 10 million loan

### 4.3 Competitive Factor Analysis

#### Customer Survey

For the purpose of the research, total of 50 sample customers were surveyed. Out of the total 50 customers, 25 were the customers of Bank of Kathmandu and 25 were the customers of NABIL Bank. The survey was conducted with the main purpose of analyzing the scenario of home loan and comparing the banks in terms of home loan from the perspective of the customers. The level of customer satisfaction and the competitive position of the banks will be analyzed through this study. The analysis is based on the response and feedback of the 50 sample customers. The sample questionnaire used for this survey is found in the annex. Hence the section will analyze and interpret the findings of the customers survey question wise and it was asked to the respondent in the questionnaire

#### 4.3.1 People interested in home loan in consideration of Their Age

The study attempted to find out the age group of people who generally take the home loan to buy home. After the survey, it was found that out of 50 respondents 22 of them tell under the age group of 25-35, 26 respondents tell under the age group 35-40 which is age group of the highest frequency and comparatively more prompted towards taking home loan. Likewise only 2 respondents fell under the age group of above 40.

**Table 4.1**

**People interested in home loan in consideration of their age**

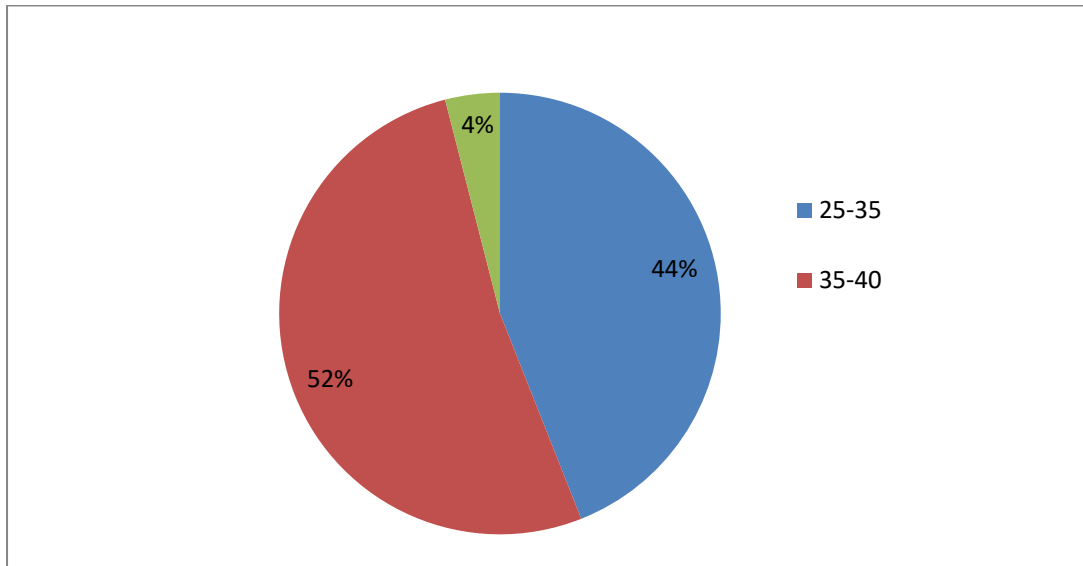
Age	Frequency (f)	Frequency in %
25-35	22	44
35-40	26	52
Above 40	2	4

*Source: Field Survey*

The table no. 4.1 clarifies that 44% of the customers of BOK and NABIL bank fall under the age group of 25-35, 52% of the customers are age group of 35-40 which is the highest percentage of frequency. Only 4% of the people fall under the age group of 40 above. This means the most people under age group 35-40 has both desire and ability to take home loan from the banks. The pie chart make the response of the customers even clears.

**Figure 4.1**

**People interested in home loan in consideration of Their Age**



*Source: Table No. 4.1*

From the figure 4.1, we can see that people between the age group of 35-40 are more interested in taking home loan than people of any other ages. The people above 35 and below 40 are generally successful working people who have the capacity to purchase a home and pay the interest. This might be the reason for such a result of the respondent's survey. Besides the survey shows that age group of people who are 25-35 taking the home loan than the people of 40 or 40 above.

**4.3.2 Peoples Demand for Home Loan Profession Wise**

The survey was done to find out which profession of people interested in taking home loan. Then again the proportion of home loan users with different profession in the two banks was compared in order to find out the customer's choice of bank regarding their profession. The table shows the overall percentage of home loan users segregated profession wise as per the survey conducted.

**Table 4.2**

**Peoples Demand for Home Loan Profession Wise**

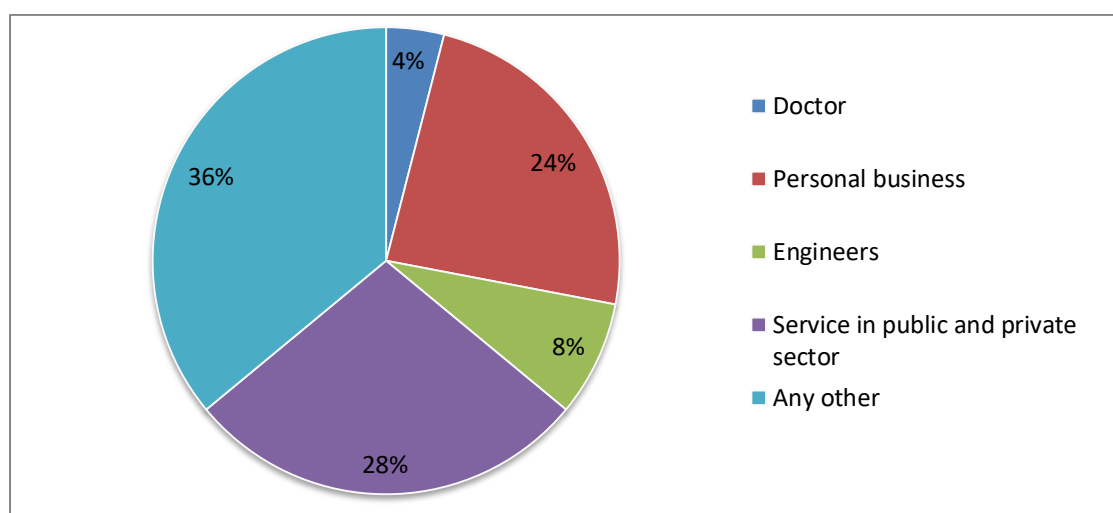
<b>Profession</b>	<b>No of respondents (frequency-f)</b>	<b>Frequency in %</b>
Doctor	2	4
Personal business	12	24
Engineers	4	8
Service in public and private sector	14	28
Any other	18	36

*Source: Field Survey*

Out of total 50 respondents (25 from BOK and 25 from NABIL) .4% of them were doctor, 24% of personal business , 8% of engineers, 28% of service in public and private sector, and 36% are engaged in any other profession. This data shows that person engaged in any other business are the most frequent or more willing to take home loan than any other profession regardless of their income level. The second categories of respondent who are willing and able to take home loan are service in public and private sectors. Then comes the personal business holders who are willing and able to take home loan . From the study it is found that engineers and doctors are less willing to take home loans.

**Figure 4.2**

**Peoples Demand for Home Loan Profession Wise**



*Source: Table No. 4.2*

From the figure 4.2, we can see that among the respondents 4% are doctors, 24% have their personal business, 8% are engineers, 28% are engaged in service in public and private sector and 36% are related to any other profession.

**Table 4.3**

**Demand for home loan in NABIL and BOK profession wise**

<b>Profession</b>	<b>NABIL-f</b>	<b>% in NABIL</b>	<b>BOK-f</b>	<b>% in BOK</b>
Businessman	7	28%	5	20%
Doctors			2	8%
Engineers			4	16%
Govt and private Sectors	8	32%	6	24%
Any other	25	40%	8	32%

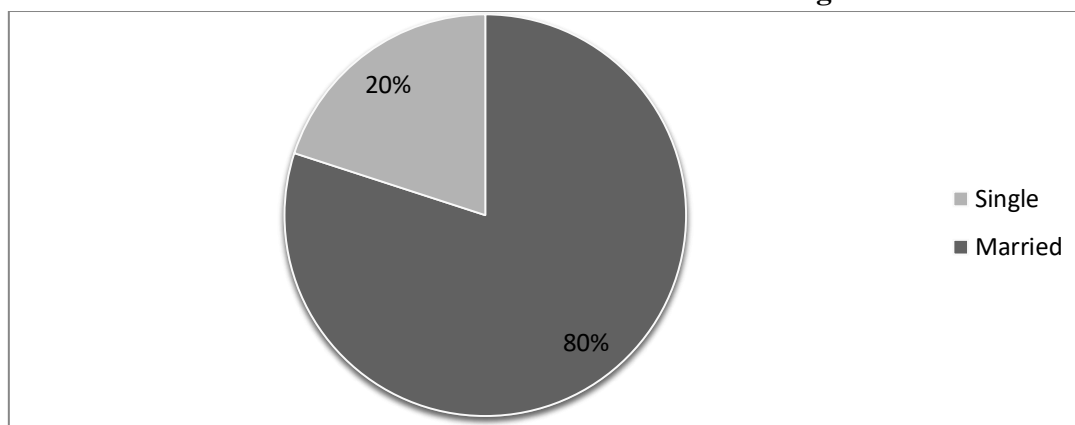
*Source: Field Survey*

From the survey it was found that out of the total customers, 28% of the customer of NABIL bank was businessmen by profession. Likewise in BOK 20% of the customers is businessman. In the same way 8% and 16% of the customers of the BOK are doctors and engineers. But no customers of the survey of NABIL bank are doctors and engineers. 32% of the customers are employee of government and private sectors and 40% of customers of NABIL bank are engaged in any other sectors. Similarly 24% of the customers of BOK are engaged in government and private sectors and 32% of customers are engaged in any other sectors.

**4.3.3 Preference of Home loan: Married and Single**

As per the study out of the total 50 respondents 40 of them were married whereas only 10 of them were unmarried. This means that 80% of the customers were married and 20% of them were unmarried or single. This has been shown with the help of pie chart.

**Figure 4.3**  
**Preference of Home Loan Married and Single**



*Source: Table No. 4.3*

From the figure 4.3 , it is clear that married people are more interested in taking auto loan than that of unmarried people. As mentioned earlier the average age group who are more interested to take home loan is 35-40 years. Most of the people under this age are generally married and they mostly prefer to take loans. The table shows the percentage of married and unmarried customers of NABIL and BOK.

**Table 4.4**  
**Preference of Home loan of NABIL and BOK**

<b>STATUS</b>	<b>NABIL</b>	<b>IN %</b>	<b>BOK</b>	<b>IN %</b>
Married	22	88	18	72
Single	3	12	7	28

*Source: Field Survey*

The table no.4.4 shows that 88% of the customers of NABIL bank were married and only 12% of customers were unmarried. Similarly, 72% of the customers of BOK are married and 28% of customers are unmarried. Hence it shows that mostly married people are attracted toward home loan.

#### **4.3.4 Sources considered by the customers while getting information about Home-Loan**

The question was asked to find out which is the most effective and influencing source that drives the customers to take home loan. In this regard , out of 50 sample customers 10 of them were influenced by friends ,6 of the customers were driven by marketing and visibility of the banks,13 of them considered the information from internet and websites and 21 of them followed the advice and suggestions of the home dealers. On the basis of the total number of responses on each source ,ranks are assigned from 1 to 4 in which 1 is the most used and 4 is the least. The table shows the response

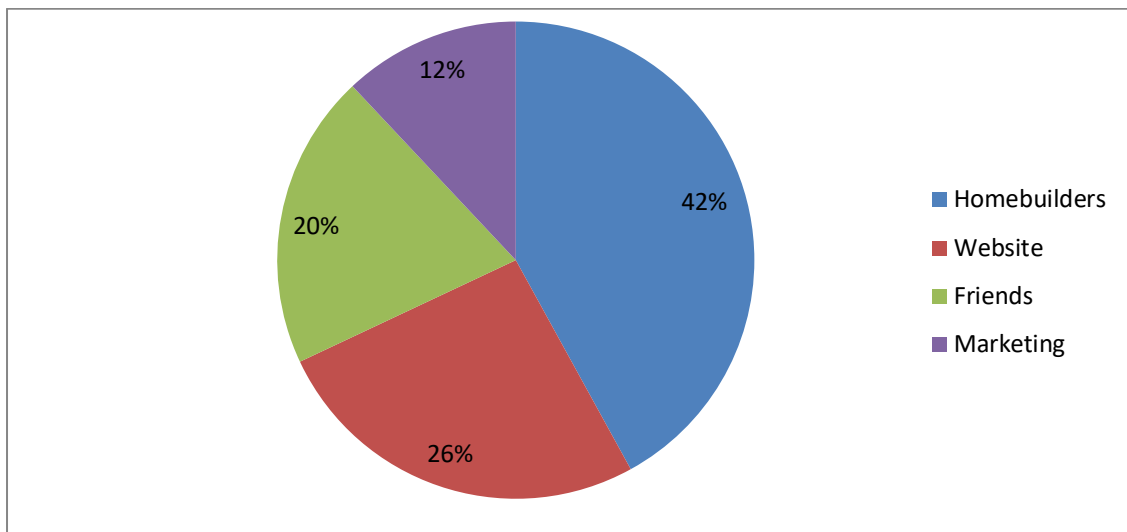
**Table 4.5**  
**Sources considered by the customers while getting information about Home-Loan**

<b>Sources</b>	<b>Frequency</b>	<b>Rank</b>	<b>In %</b>
Homebuilders	21	1	42
Website	13	2	26
Friends	10	3	20
Marketing	6	4	12

*Source: Field Survey*

The table no.4.5 shows the ranking of different sources based on the total number of response. The most influencing source homebuilders are ranked 1 then after website are ranked 2 followed by friends and marketing ranked 3 and 4 respectively. Hence this shows that home builders are the most influential source of customers while taking home loan.

**Figure 4.4**  
**Sources considered by the customers while getting information about Home-Loan**



Source: Table No. 4.5

Similarly as per the survey , the pie chart shows that 42% of the total customers of NABIL and BOK are influenced by home builders , 26% by website , 20% by friends and 12% by marketing.

The table shows the influencing sources in taking home loan from NABIL and BOK

**Table 4.6**  
**Influencing Sources in taking Home Loan from NABIL and BOK**

Sources	NABIL	%	BOK	%
Homebuilders	12	48	9	36
Website	6	24	7	28
Friends	4	16	6	24
Marketing	3	12	3	12

Source: Field Survey

The table no.4.6 shows that 48% of the customers of NABIL bank were influenced by home builders whereas 36% of the customers of BOK were influenced by home builders. This shows that NABIL bank has greater relation and tie up with home dealers than BOK. On the other hand 24% of the customers of NABIL bank gather information about home loan from websites and 28% of the customers of BOK gather information from websites. 16% of the customers of NABIL bank were influenced by their friends whereas 24% of the customers of BOK are influenced by friends. Similarly 12% of customers of both banks are influenced by marketing promotion.

#### 4.3.5 Percentage of Loan Taken Out of Total Value

The question was asked with the view to analyze the total down payment the customers generally make and the general trend of the percentage of loan taken by the customers in practice. Out of 25 respondents of NABIL, 6 had taken 80% of loan from the bank, 15 had taken 70% of loan from bank, 4 had taken 60% of loan from bank and no any customers had taken their percentage of loan from bank. In the context of BOK, 4 had taken 80% of loan from the bank, 6 had taken 70% of loan from bank, 11 had taken 60% of loan from bank and 4 had taken different percentage of loan from bank. The table shows the customers response towards the percentage of loan financed by the banks out of the total value of the vehicles.

**Table 4.7**

**Percentage of Loan Taken Out of Total Value**

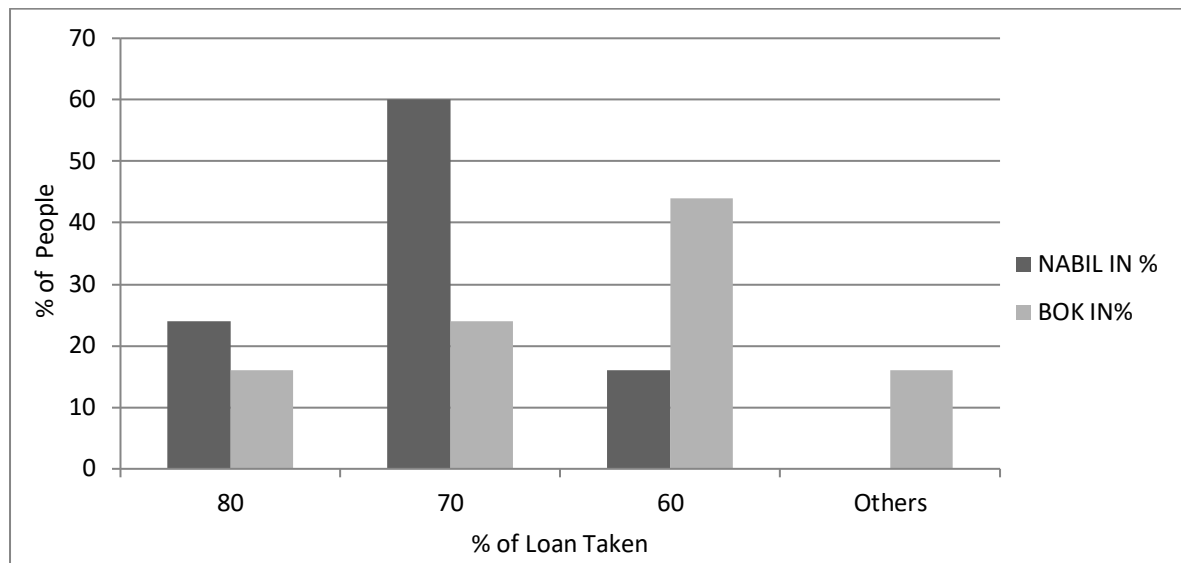
<b>Percentage</b>	<b>NABIL</b>	<b>%</b>	<b>BOK</b>	<b>%</b>
80	6	24	4	16
70	15	60	6	24
60	4	16	11	44
Others	-	-	4	16

*Source: Field Survey*

The result of the survey is shown in given bar diagram:

**Figure 4.5**

**Percentage of Loan Taken Out of Total Value**



*Source: Table no. 4.7*

From the figure no. 4.5, it is seen that 24% of the customers of NABIL bank 80% of total loan. But in BOK only 16% of customers had taken 80% of the total loan. Similarly, 60% of the customers of NABIL bank had taken 70% of the total loan but 24% of the customers of BOK had taken 70% of the total loan. Moreover , only 16% of the customers of NABIL bank had taken 60% of the total loan where as 44% of the customers of BOK had taken 60% of the total loan. This shows that in comparison to NABIL , BOK ae stricter in providing more loan to customers. It may be due to risk of default.

#### **4.3.6 The Procedure of Taking Home Loan from the Bank**

The question was surveyed with a view to find out in comparison between the BOK and NABIL bank has the more easy procedure while takking the home loan. The survey showed that among the 25 samplecustomers from BOK , 9 respondents addressed the process as easy, 9 found it very lengthy, 1 said the process friendly dealing, 2 said it was fast and 4 said it was simple. Out of 25 sample customers of BOK , 11 respondents addressed the process as easy , 4 found it very lengthy, 2 said the process was friendly dealing , 6 said it was fast and only 2 said it was simple.

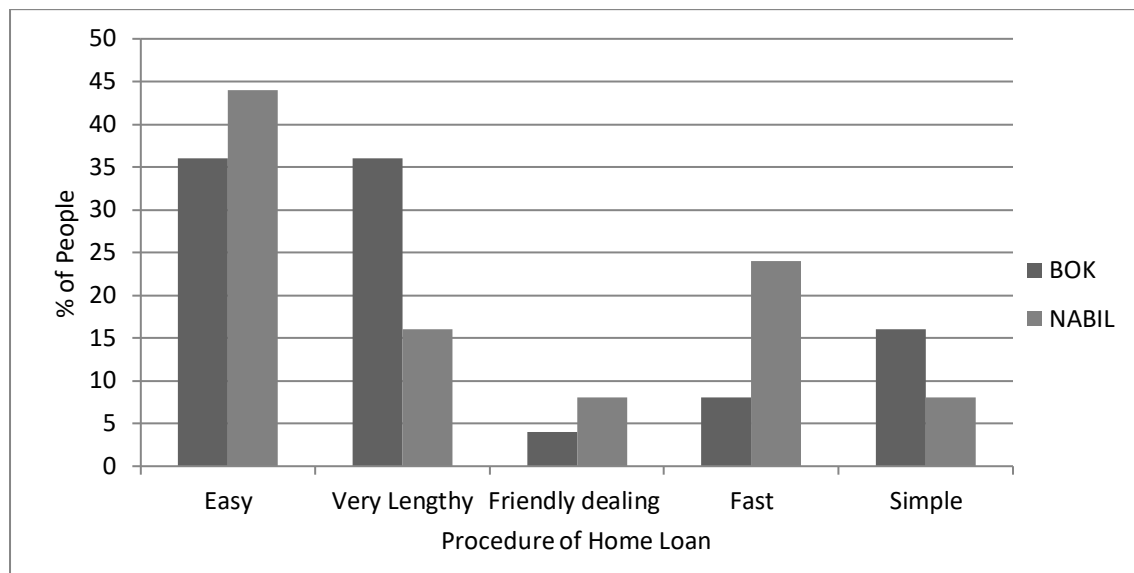
The table shows the customers response towards the procedure of taking home-loan from the individual banks.

**Table 4.8**  
**Procedure of taking Home Loan from the Bank**

Process	BOK	%	NABIL	%
Easy	9	36	11	44
Very Lengthy	9	36	4	16
Friendly dealing	1	4	2	8
Fast	2	8	6	24
Simple	4	16	2	8

Source: Field Survey

**Figure 4.6**  
**Procedure of taking Home Loan from the Bank**



Source: Table no. 4.8

The figure no. 4.6 shows that the procedure of taking home loan is found to be more satisfactory in terms of convenience of taking the loan for the customers of NABIL Bank than that of BOK, in percentage.

#### **4.4 Impact of Home Loan on Profitability of Bank**

In this section , an attempt is made to analyze the impact and contribution of home loan on profitability of bank. Interest income is the main source of income of bank. Bank make investment in many sectors from which they collect interest. Among other sectors, home loan is the one which make contribution in the income of the bank

in the form of interest. So, in this study, it is tried to analyze how much contribution is made from home loan to interest received from total loan and advance, total interest received and net profit after tax of sample banks. The analysis is done on the percentage basis.

## **Contribution of Home Loan on Profitability of Sample Banks**

### **4.4.1 Percentage of Interest Received from Home Loan to Interest Received from Total Loan and Advance**

Home loan is a part of total loan and advance. The interest received from total loan and advance include interest received from home loan. Hence, it is attempted to analyze contribution made from home loan to interest received from total loan and advance. The data of the sample banks are presented in the following table.

**Table 4.9**

#### **Percentage of Interest Received from home Loan to Interest Received from Total Loan and Advance of NABIL bank**

(Rs in Million)

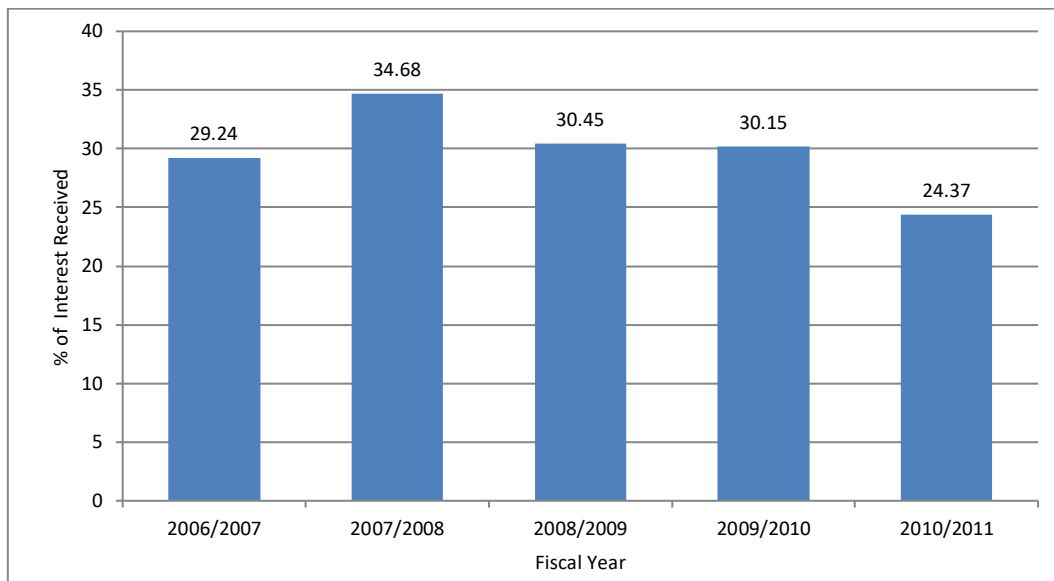
<b>Fiscal Year</b>	<b>Home loan</b>	<b>Total loan and advance</b>	<b>% of Home Loan to total loan and advance</b>	<b>Interest received</b>	<b>Total Interest received from Loan and advance</b>	<b>% of interest received from Home Loan to total interest received from loan and advance</b>
2006/2007	1923.3	15,657.10	12.28	230.80	789.39	29.24
2007/2008	2985	21,514.60	13.87	343.275	989.77	34.68
2008/2009	4014.5	27,816.60	14.43	451.63	1,483.04	30.45
2009/2010	4780.6	32,902.80	14.53	669.28	2,219.75	30.15
2010/2011	5022.4	38,765.60	12.96	703.14	2,885.34	24.37

*Source: Annual Report of NABIL Bank*

From the table no.4.9, it is found that the ratio of home loan to total loan and advance is increasing except in last years. But the ratio of interest received from home loan to interest received from total loan and advance is decreasing. It means for the NABIL bank the proportion of home loan to total loan and advance and interest received from home loan to interest received from total loan and advance moves in different direction.

**Figure 4.7**

**Percentage of Interest Received from Home Loan to Total Interest Received from Loan and Advance**



*Source: Table No. 4.9*

From the figure no. 4.7, it is found that the %of interest received from home loan to total interest received from loan and advance in 2007 is 29.24%, 2008 is 34.68, 2009 is 30.45, 2010 is 30.15 and 2011 is 24.37. Hence , the percentage is fluctuating from year to year. It means the fluctuation is due to fluctuation in the interest rate of home loan from year to year and it is also affected by the interest rate of other types of loan and advance. So, the proportion of home loan to total loan and advance and interest received from home loan to interest received from total loan and advance does not move in same direction.

**Table 4.10**  
**Percentage of Interest Received from Home Loan to Interest Received from**  
**Total Loan and Advance of BOK Bank**

(Rs. In millions)

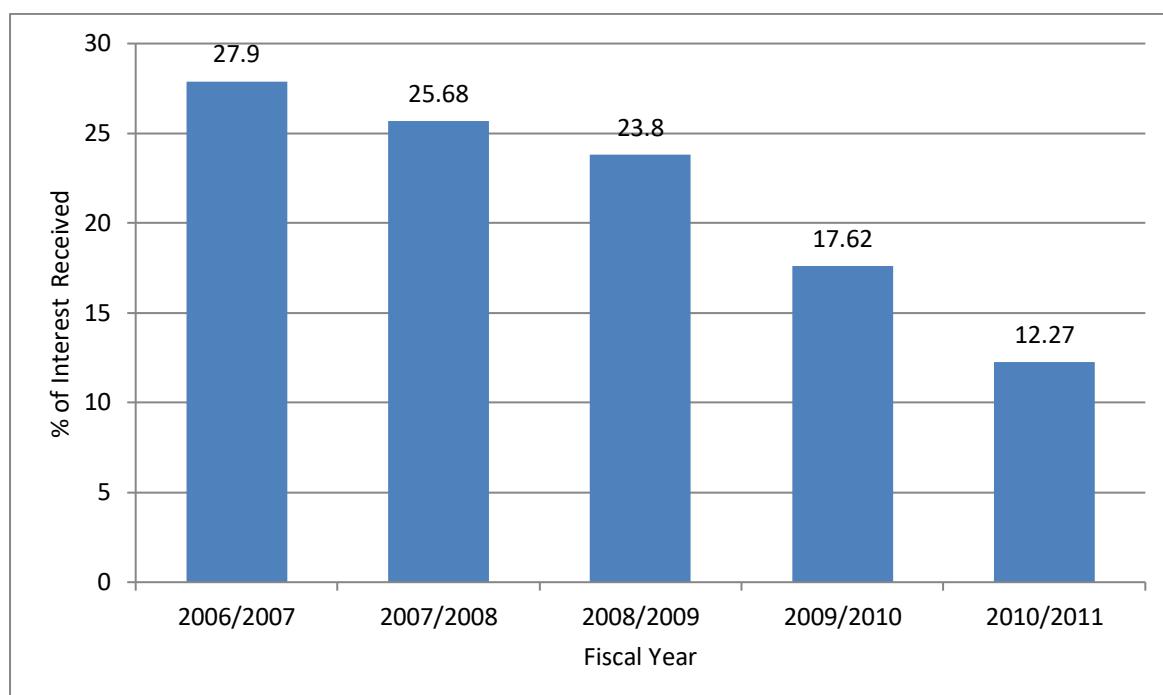
<b>Fiscal Year</b>	<b>Rate(%)</b>	<b>Home loan</b>	<b>Total loan and advance</b>	<b>% of Home Loan to total loan and advance</b>	<b>Interest received</b>	<b>Total Interest received from Loan and advance</b>	<b>% of interest received from Home Loan to total interest received from loan and advance</b>
2006/2007	12	1102.50	9663.60	11.41	132.30	474.15	27.90
2007/2008	12.5	1380.500	12692.90	10.88	172.563	671.952	25.68
2008/2009	12	1808.50	14894.70	12.14	217.020	911.983	23.80
2009/2010	14	1595.70	16847.10	9.47	223.398	1267.635	17.62
2010/2011	14	1478.80	17247.80	8.57	207.032	1687.154	12.27

*Source: Annual Report of BOK*

From the table no. 4.10 ,it is found that the ratio of home loan to total loan and advance is decreasing except in middle year. In the same manner, the ratio of interest received from home loan to interest received from total loan and advance is also decreasing.It means for the BOK bank the proportion of home loan to total loan and interest received from home loan to interest received from total loan and advance moves in same direction.

**Figure 4.8**

**Percentage of interest received from Home Loan to total interest received from loan and Advance of BOK bank**



*Source:Table 4.10*

From the figure 4.8 ,it is found that,the % of interest received from home loan to total interest received from loan and advance in 2007 is 27.90,2008 is 25.68, 2009 is 23.80 ,2010 is 17.62 and 2011 is 12.27.Every year the percentage is decreasing. It means in comparison to interest rate of home loan ,the interest rate of other loan and advance is higher.The ratio of home loan to total loan and advance is also decreasing.It means the BOK narrow down its investment in home loan from year to year.

**4.4.2 Percentage of Interest Received from Home Loan to Total Interest Received**

Bank earns interest from different sources which include loan and advances, investment, money at short and call notice, agency balance and others. Interest

income is the major income source of the bank. In this section, it is attempted to analyze how much percentage of total interest received is covered by interest received from home loan. The data of the sample banks are presented in the following table.

**Table 4.11**  
**Percentage of Interest Received from Home Loan to**  
**Total Interest Received of NABIL Bank**

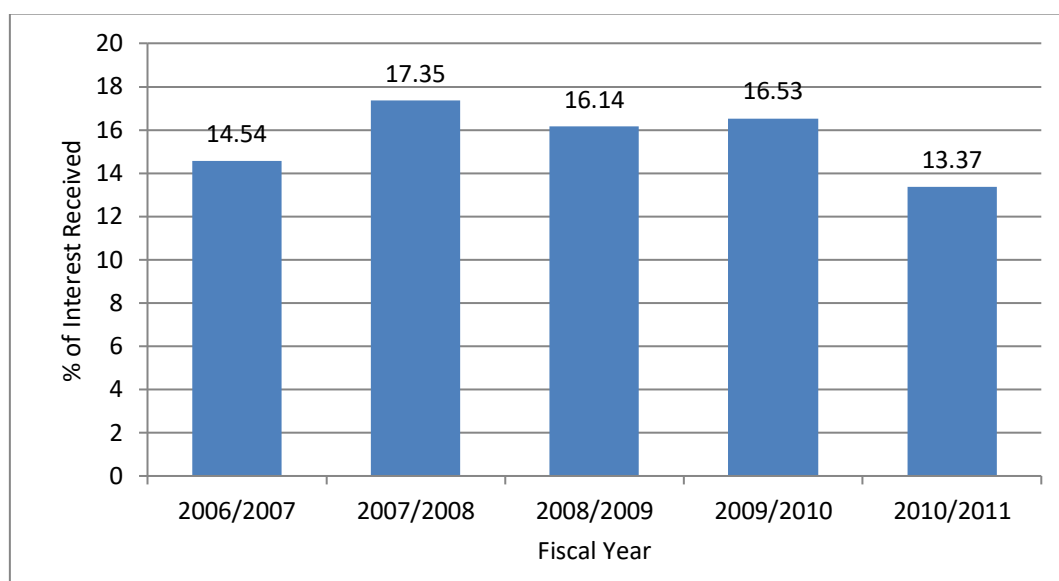
(Rs. In million)

<b>Fiscal Year</b>	<b>Interest received from home loan</b>	<b>Total interest received</b>	<b>% of interest received from home loan to total interest received</b>
2006/2007	230.80	1587.76	14.54
2007/2008	343.275	1978.67	17.35
2008/2009	451.63	2798.49	16.14
2009/2010	669.28	4047.725	16.53
2010/2011	703.14	5258.27	13.37

*Source: Annual Report of NABIL Bank*

From the table 4.11, it is found that percentage of interest received from home loan to total interest received of NABIL Bank is more than 10% and near about 15% in average. It is also found that the percentage of interest received from home loan to total interest received is fluctuating from year to year.

**Figure 4.9**  
**Percentage of Interest Received from Home Loan to**  
**Total Interest Received of NABIL Bank**



*Source: Table 4.11*

From the figure 4.9, it is found that the percentage of interest received from home loan to total interest received of NABIL Bank is fluctuating from year to year. It is due to fluctuation of interest rate from year to year and the interest rate of other investment. In the case the interest rate of other investment is higher in comparison to home loan the percentage of interest received to total interest received is lower and vice versa.

**Table 4.12**  
**Percentage of Interest Received from Home Loan to**  
**Total Interest Received of BOK Bank**

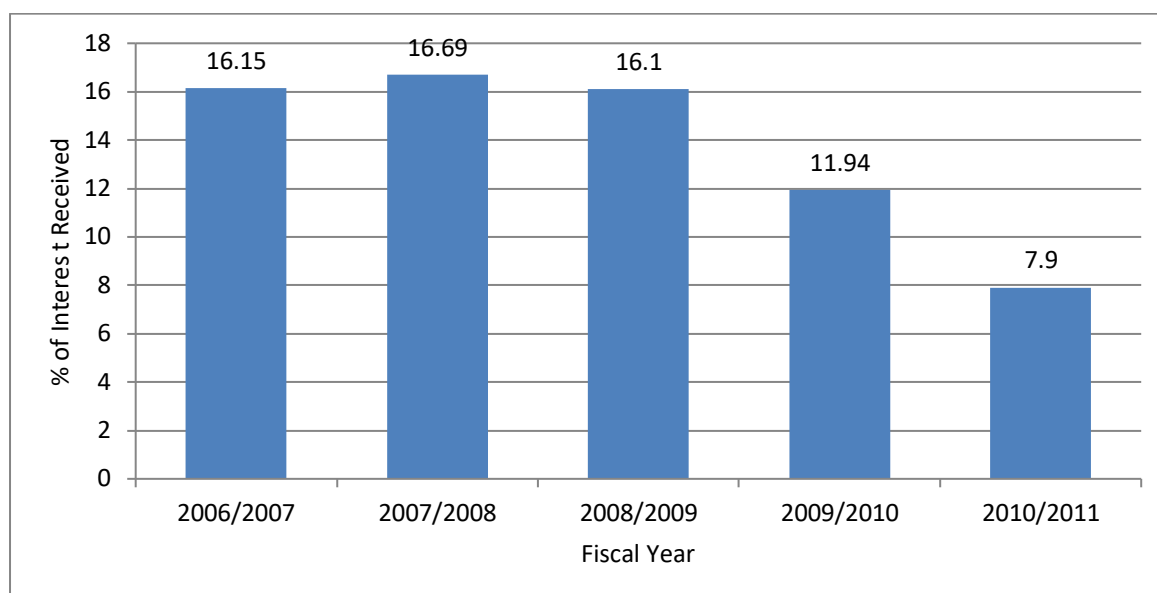
(Rs.in million)

<b>Fiscal Year</b>	<b>Interest received from home loan</b>	<b>Total interest received</b>	<b>% of interest received from home loan to total interest received</b>
2006/2007	132.30	819.004	16.15
2007/2008	172.563	1,034.158	16.69
2008/2009	217.020	1,347.755	16.10
2009/2010	223.398	1,870.847	11.94
2010/2011	207.032	2,620.895	7.90

*Source: Annual Report of BOK*

From the table 4.12, it is found that percentage of interest received from home loan to total interest received of BOK Bank is above 16% in earlier 3 years and it drops to approximately to 12% and 8% respectively in later 2 years.

**Figure 4.10**  
**Percentage of Interest Received from Home Loan to**  
**Total Interest Received of BOK Bank**



*Source: Table 4.12*

From the figure 4.10, it is found that % of interest received from home loan to total interest received of BOK bank is in 2007 is 16.15%, 2008 is 16.69%, 2009 is 16.10%, 2010 is 11.94%, 2011 is 7.90%. Hence, it is decreasing every year. It is due to mainly two factors. One factor is interest rate and another factor is investment in home loan. The interest rate of other investment is higher than the home loan. Moreover, from the above data the investment of BOK in home loan is decreasing every year.

#### **4.4.3 Percentage of Interest Received from Home Loan to Net Profit After Tax**

Net profit after tax means profit earned after deducting all allowable expenses, staff bonus and income tax. In this section, it is attempted to analyze how much percentage of net profit after tax is covered by interest received from home loan. So, that it can be found how much contribution the home loan has made to net profit after tax. The data of the sample banks are presented in the sample of banks.

**Table 4.13**  
**Percentage of Interest Received from Home Loan to**  
**Net Profit After Tax of NABIL**

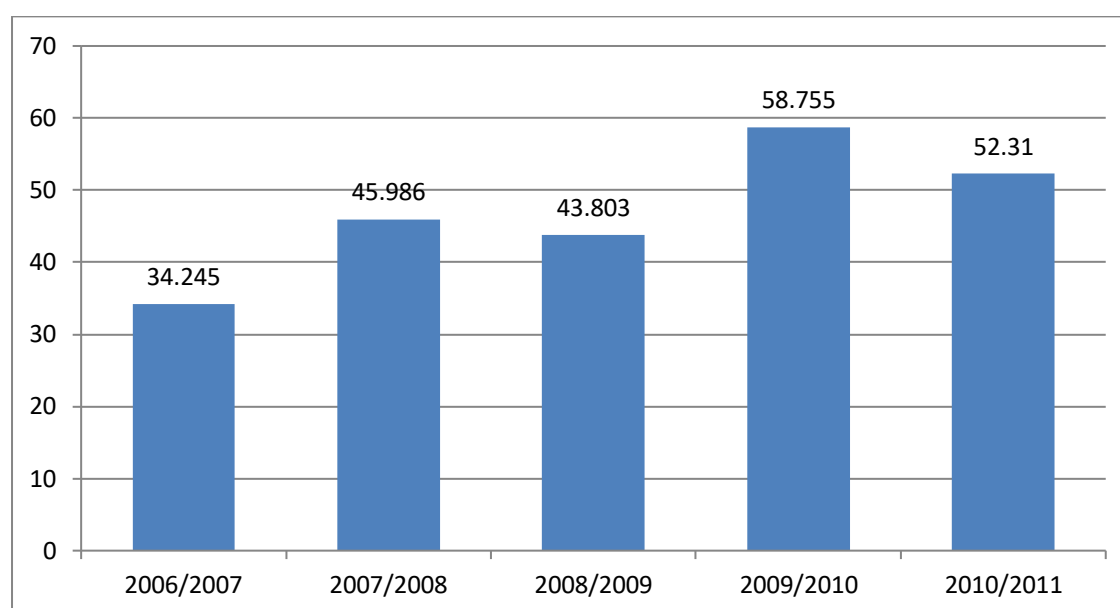
(Rs. in Million)

<b>Fiscal Year</b>	<b>Interest received from home loan</b>	<b>Net profit after tax</b>	<b>% of interest received from home loan to net profit after tax</b>
2006/2007	230.80	673.960	34.245
2007/2008	343.275	746.470	45.986
2008/2009	451.63	1031.053	43.803
2009/2010	669.28	1139.100	58.755
2010/2011	703.14	1344.18	52.310

*Source: Annual Report of NABIL Bank*

From the table no. 4.13, it is found that percentage of interest received from home loan to net profit after tax is fluctuating from year to year. It is maximum in the year 2010. The percentage net profit is more than 35% in every year which is regarded as very good contribution to net profit after tax.

**Figure 4.11**  
**Percentage of Interest Received from Home Loan to**  
**Net Profit After Tax of NABIL**



*Source: Table No. 4.13*

From the figure 4.11 ,it is found that the percentage received from home loan to net profit after tax in 2007 is 34,245, in 2008 is 45.986, in 2009 is 43.803, in 2010 is 58.755 and in 2011 is 52.310. It is fluctuating every year. Hence, it is seen % of interest received on home loan has same impact on total interest received and net profit after tax.

**Table 4.14**  
**Percentage of Interest Received from Home Loan to**  
**Net Profit After Tax of BOK**

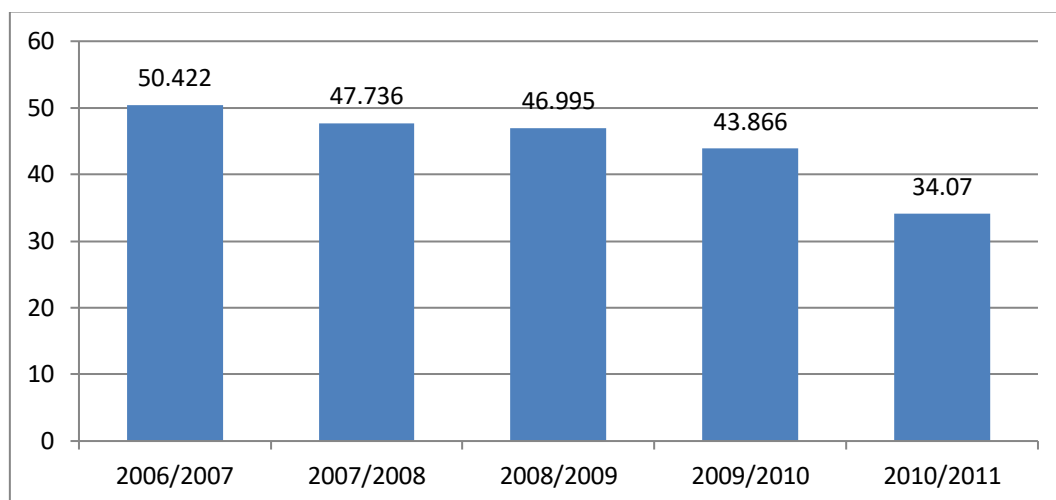
(Rs. in Million)

<b>Fiscal Year</b>	<b>Interest received from home loan</b>	<b>Net profit after tax</b>	<b>% of interest received from home loan to net profit after tax</b>
2006/2007	132.30	262.387	50.422
2007/2008	172.563	361.497	47.736
2008/2009	217.02	461.795	46.995
2009/2010	223.40	509.268	43.866
2010/2011	207.03	607.662	34.070

*Source: Annual Report of BOK*

From the table 4.14, it is found that percentage of interest received from home loan to net profit after tax is decreasing from year to year. Although , it is decreasing from year to year ,the minimum percentage of contribution is approximately 35% which is regarded as the good congtribution towards net profit after tax.

**Figure 4.12**  
**Percentage of Interest Received from Home Loan to**  
**Net Profit After Tax of BOK**



*Source: Table No. 4.14*

From the figure no. 4.12 ,it is found that the % of interest received from home loan to net profit after tax of BOK in 2007 is 50.422, in 2008 is 47.736, in 2009 is 46.995, in 2010 is 43.866 , in 2011 is 34.070. Hence, it is seen % of interest received on home loan has same impact on total interest received and net profit after tax. Although the percentage is decreasing every year, the lowest percentage is approximately 35% which is regarded as good contribution.

#### 4.5 Position of Housing Loan

The banks collect the deposit from the customers and they are invested on various sectors. Since past few years ,there is lack of secured investing sector due to nation's internal problem. However, housing finance is one of the most popular and secured investing sector. So, most of the banks are attracted towards such financing schemes for their customers by lunching different housing finance scheme. The housing loan position of last few years of BOK and NABIL are shown in the table below:

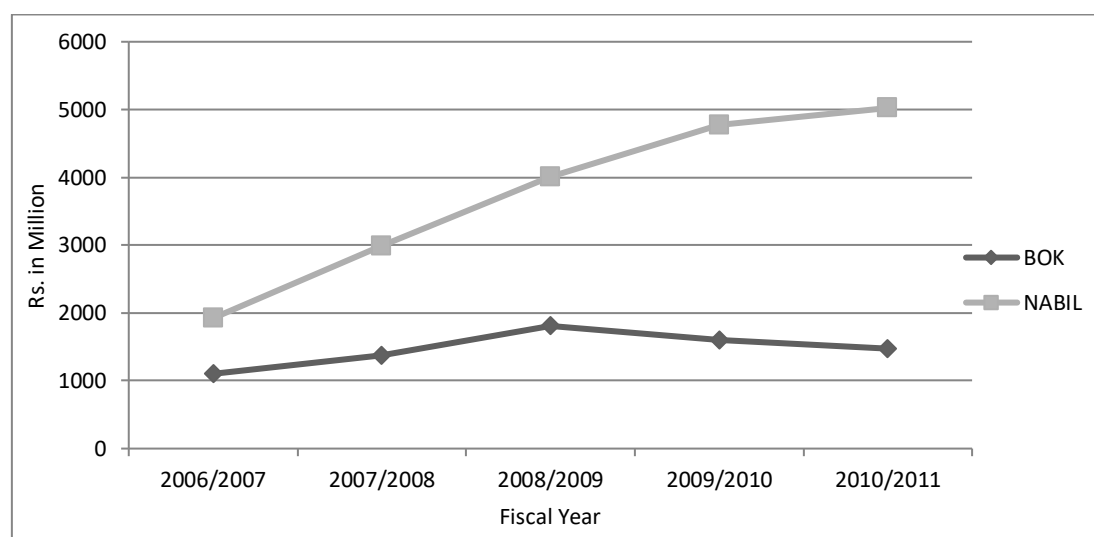
**Table 4.15**  
**Position of Housing Loan**

(Rs in Million)

Fiscal Year	Housing Loan	
	BOK	NABIL
2006/2007	1102.5	1923.3
2007/2008	1380.50	2985
2008/2009	1808.5	4014.50
2009/2010	1595.70	4780.60
2010/2011	1478.80	5022.40
	7,366	18,725.8

*Source: Loan Department of BOK and NABIL*

**Figure 4.13**  
**Trend Position of Housing Loan**



Source: Table No. 4.15

From the table no.4.15 and Figure 4.13, it is seen that the amount of housing loan of BOK is in increasing trend in earlier years. But in later years it is in decreasing trend. But for NABIL, the amount is in increasing trend.

#### 4.6 Position of Total Loan and Advance

The major source of loan is deposit collected by banks from its valuable customers. The bank provides loan and advances to their customer in various forms like :home loan, housing loan, education loan and so on. The major activity of the bank is to collect deposit from the customer and generate income in the form of interest of granting loan to the needed person and sectors.

**Table 4.16**  
**Position of Total Loan And Advance**

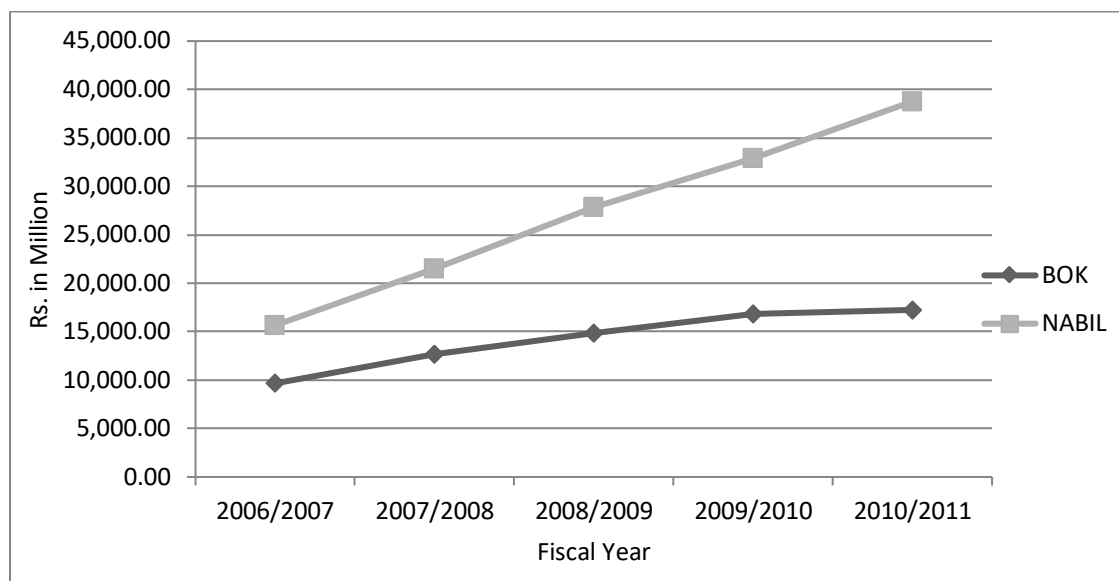
(Rs. in Million)

Fiscal Year	Total loan and advance	
	BOK	NABIL
2006/2007	9,663.60	15,657.10
2007/2008	12,692.90	21,514.60
2008/2009	14,894.70	27,816.60
2009/2010	16,847.10	32,902.80
2010/2011	17,247.80	38,765.60
	71,346	136,656.70

Source: Annual Reports of BOK and NABIL

**Figure 4.14**

**Trend of Total Loan and Advance for BOK and NABIL**



*Source: Table No 4.16*

From the table no. 4.16 and Figure 4.14, it is seen that the amount of Total Loan for NABIL is in increasing trend. The amount is seen to be increased by more than double amount in past five years. Similarly for BOK, the amount is in increasing trend and the amount has been increased by approximately double

#### **4.7 Relationship between Housing Loan and Total Loan**

One of the main objectives of the study is to know the relationship between housing loan and total loan. In other words, the major motive is to explore to chunk of housing loan out of total loan. Since in past few years financial institutions are not of getting appropriate avenue for investment. So they are forced to search new sectors for investment and ultimately enter into housing finance. This scenario has diverted the most of the investable fund of banks to housing sectors. To some extent, such finance is good, but large finance is good for country's economy because they are non productive sector. They don't give any contribution to the growth of economy. So by this analysis, it is tried to know the trend of housing finance out of total loan.

##### **4.7.1 Correlation between Housing Loan and Total Loan for BOK**

To find out the relationship between housing loan and total loan, it is necessary to know the magnitude of relationship. The better measure to know the magnitude of

relationship is to calculate correlation coefficient. Following table shows the value of r, P.E. between the housing loan and total loan of Bank Of Kathmandu.(For detail see appendix V)

**Table 4.17**

**Correlation between Housing Loan and Total Loan for BOK**

<b>Bank</b>	<b>Correlation co-efficient</b>	<b>Probable error</b>
Bank Of Kathmandu	0.728	0.142

Since correlation coefficient is positive, which indicate that the relationship between the two variables is strong? In other words when one variable change by one time, other variable change by 0.728 times in the same direction. This indicates that BOK has increased its housing loan scheme in its total loan and advance each year.

**4.7.2 Correlation between Housing Loan and Total Loan for NABIL**

Following table shows the value of r, P.E. between the loan and housing loan of NABIL during the study. (For detail see appendix VI)

**Table 4.18**

**Correlation between Housing Loan and Total Loan for NABIL**

<b>Bank</b>	<b>Correlation co-efficient</b>	<b>Probable error</b>
NABIL	0.981	0.011

Since correlation coefficient is highly positive, which indicate that the relationship between the two variables is very strong? In other words when one variable change by one time, other variable change by times in the same direction. This indicates that NABIL has increased its housing loan scheme in its total loan and advance each year.

**4.8 Trend Analysis**

To find the future scenario of housing loan for sample banks, trend analysis has been done. This statistical test describes the trend of any variables with passage of time. Most popular method for trend analysis least square method is,

$$Y_c = a + bx$$

$$\text{Where, } a = \frac{\sum y}{n} \text{ and } b = \frac{\sum xy}{\sum x^2}$$

Here,  $Y_C$  is used to designate the trend value to distinguish from the actual value. 'a' is the  $Y_C$  intercept as the computed trend figure of the trend line or the amount of change in Y variable, that is associated with a change of one unit on X variable represents the time

#### 4.8.1 Trend Analysis of Housing Loan of BOK.

In this section, an attempt has made to analyze the trend amount of housing loan for BOK and to forecast the housing loan for the five year periods.

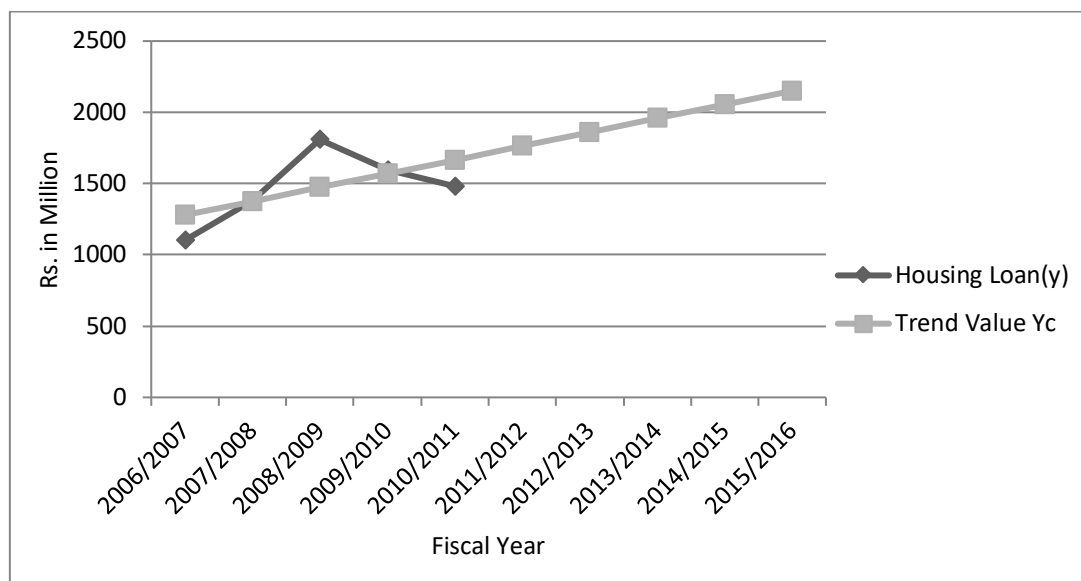
**Table 4.19**  
**Trend Analysis of Housing Loan of BOK**

(Rs in millions)

Year	Housing Loan(y)	Trend Value $Y_c$
2006/2007	1102.5	1279.64
2007/2008	1380.5	1376.42
2008/2009	1808.5	1473.2
2009/2010	1595.7	1569.98
2010/2011	1478.8	1666.76
2011/2012	Forecasted value	1763.54
2012/2013	Forecasted value	1860.32
2013/2014	Forecasted value	1957.10
2014/2015	Forecasted value	2053.88
2015/2016	Forecasted value	2150.66
<b>Mean (a)</b>		<b>1473.20</b>
<b>Rate of Change (b)</b>		<b>96.78</b>
<b>Trend Equation</b>		<b>1473.20 + 96.78x</b>

Source: Appendix- I

**Figure 4.15**  
**Trend Analysis of Housing Loan of BOK**



Source: Table No. 4.19

From the table 4.19 and Figure 4.15, it is found that the amount of housing loan of BOK is in fluctuating trend. It was increasing in earlier periods and after 2010 it is in decreasing trend. The rate of change is Rs.1473.20 million in the study period. If other things remains same, the housing loan for period ending 2012, 2013, 2014, 2015 and 2016 will be Rs. 1763.54, Rs. 2553.61 million, Rs. 1957.10 million, 2053.88 million and 2150.66 million respectively.

#### **4.8.2 Trend Analysis of Housing Loan of NABIL**

The trend of amount of housing loan for NABIL and its forecasted loan amount for the five periods in the table.

From the table no. 4.20 and Figure 4.16, it has been revealed that the amount of housing loan of NABIL is in increasing trend. The rate of change is Rs. 799.38 millions, i.e.,  $b=799.38$ . The mean housing loan of one year period is 3745.16 million in the study period. If other things remaining the same, the housing loan for the period 2012, 2013, 2014, 2015, 2016 will be Rs.6143.30 million, Rs. 6942.68 million and Rs. 7742.06 million. 8541.44 million and 9340.82 million respectively.

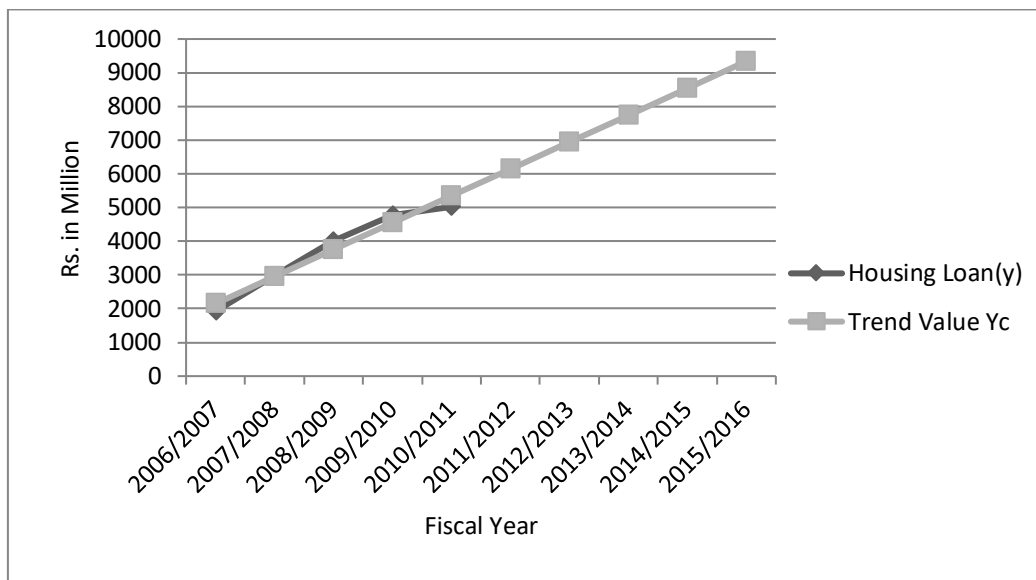
**Table 4.20**  
**Trend Analysis of Housing Loan of NABIL**

(Rs in Millions)

Year	Housing Loan(y)	Trend Value Yc
2006/2007	1923.3	2146.4
2007/2008	2985	2945.78
2008/2009	4014.5	3745.16
2009/2010	4780.6	4544.54
2010/2011	5022.4	5343.92
2011/2012	Forecasted value	6143.30
2012/2013	Forecasted value	6942.68
2013/2014	Forecasted value	7742.06
2014/2015	Forecasted value	8541.44
2015/2016	Forecasted value	9340.82
<b>Mean (a)</b>		3745.16
<b>Rate of Change (b)</b>		799.38
<b>Trend Equation</b>		$3745.16 + 799.38x$

Source: Appendix II

**Figure 4.16**  
**Trend Analysis of Housing Loan of NABIL**



Source: Table No. 4.20

### 4.8.3 Trend Analysis of Loan and Advance of BOK

In this section, an attempt is made to analyze the trend of loan and advance of BOK and to forecast the loan and advance for the last five year period.

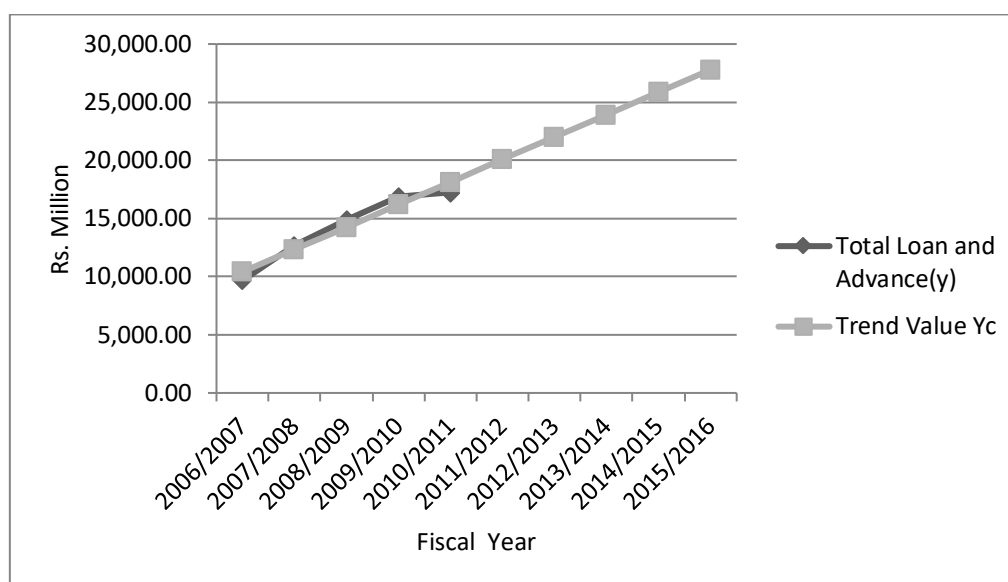
**Table 4.21**  
**Trend Analysis of Loan and Advance of BOK**

(Rs. in Millions)

<b>Year</b>	<b>Total Loan and Advance(y)</b>	<b>Trend Value Yc</b>
2006/2007	9,663.60	10404.7
2007/2008	12,692.90	12336.96
2008/2009	14,894.70	14269.22
2009/2010	16,847.10	16201.48
2010/2011	17,247.80	18133.74
2011/2012	Forecasted value	20066
2012/2013	Forecasted value	21998.26
2013/2014	Forecasted value	23930.52
2014/2015	Forecasted value	25862.78
2015/2016	Forecasted value	27795.04
<b>Mean (a)</b>		14269.22
<b>Rate of Change (b)</b>		1932.26
<b>Trend Equation</b>		$14269.22 + 1932.26x$

*Source: Appendix II*

**Figure 4.17**  
**Trend Analysis of Loan and Advance of BOK**



From the table 4.21 Figure 4.17, it is revealed that the amount of loan and advance of BOK is in increasing trend. The rate of change is Rs. 1932.26 million. I.e.  $b=1932.26$ . The mean loan and advance of one year period is Rs. 14269.22 million in the study

period. If other things remaining the same, the loan and advance for the coming year 2012, 2013 and 2014, 2015, 2016 will be Rs.20066 million Rs. 21998.26 Rs.23930.52 million 25862.78 million and 27795.04 million respectively.

#### 4.8.4 Trend Analysis of Loan and Advance of NABIL

In this section, an attempt is made to analyze the trend of loan and advance of NABIL and to forecast the loan and advance for the last five year period.

From the table no.4.22, it is revealed that the amount of loan and advance of NABIL is in increasing trend. The rate of change is Rs.5760.52 millions, i.e.  $b=5760.52$ . The mean loan and advance of one period is Rs.27331.34 million in the study period. If other things remaining the same, the loan and advance for the year 2012,2013,2014 will be Rs.44612.90 million, Rs.50373.42 and Rs.56133.94 million respectively.

**Table 4.22**  
**Trend Analysis of Loan and Advance of NABIL**

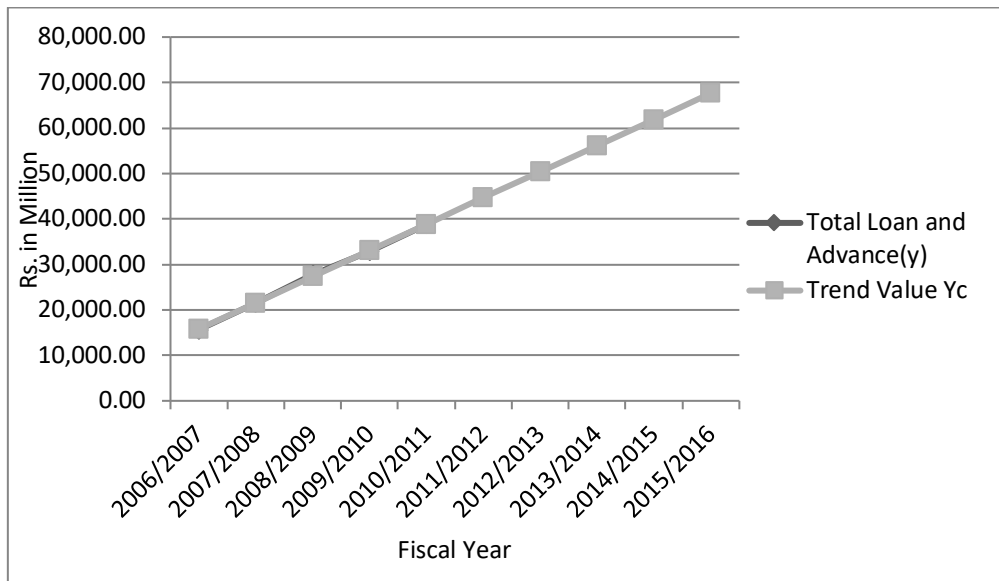
(In Rs. Millions)

Year	Total Loan and Advance(y)	Trend Value Yc
2006/2007	15,657.10	15810.3
2007/2008	21,514.60	21570.82
2008/2009	27,816.60	27331.34
2009/2010	32,902.80	33091.86
2010/2011	38,765.60	38852.38
2011/2012	Forecasted value	44612.90
2012/2013	Forecasted value	50373.42
2013/2014	Forecasted value	56133.94
2014/2015	Forecasted value	61894.46
2015/2016	Forecasted value	67654.98
<b>Mean (a)</b>		27331.34
<b>Rate of Change (b)</b>		5760.52
<b>Trend Equation</b>		$27331.34 + 5760.52x$

Source: Appendix IV

**Figure 4.18**

**Trend Analysis of Loan and Advance of NABIL**



Source: Table no.4.22

From the table no.4.22 and Figure 4.18, it is revealed that the amount of loan and advance of NABIL is in increasing trend. The rate of change is Rs.5760.52 millions, i.e.  $b=5760.52$ . The mean loan and advance of one period is Rs.27331.34 million in the study period. If other things remaining the same, the loan and advance for the year 2012,2013,2014, 2015, 2016 will be Rs.44612.90 million, Rs.50373.42 Rs.56133.94 million 61894.46 million and 67654.98 million respectively

#### 4.9 Major Findings of the Study

Having completed the basic analysis required for the study, the final and most important task of the researchers to enlist the findings issues and gaps of the study. This would be meaningful to the desired result. The following presents a comprehensive summary of the main findings of the study. The main findings of the study are derived on the basis of analysis of competitive factors and financial data of BOK and NABIL which are as follows:

##### Findings on Competitive Factors:

- The competitive advantage of NABIL is faster service, specialized staff, less processing charge and more reliable source of financing. NABIL Bank is more

flexible in terms of documentation and customer satisfaction and faster customer service.

- From the study it was found that the age group between 35-40 is more interested in taking home loan than people of any other ages as they are successful working people who have the capacity to purchase a home and pay the interest.
- Person engaged in any other profession are taking home loan than any particular profession.
- Married and settled people are more prone to take home loan as they have willingness as well as purchasing power, either for personal or for commercial purpose. The percentage of married respondents in NABIL is higher than BOK which indicates that NABIL faces slightly lesser risk in this regard.
- Homebuilders and website were respectively the first and second important influencing factors for choosing the banks.

#### **Contribution of Home Loan on Profitability of Bank**

- The proportion of home loan to total loan and advance and interest received from home loan to interest received from total loan and advance moves in different direction for NABIL bank but for BOK it moves in same direction,
- The percentage of interest received from home loan to total interest received is fluctuating from year to year for NABIL bank but for BOK, it is decreasing every year because the investment made in home loan is also decreasing every year.
- The percentage of interest received from home loan to net profit after tax is fluctuating from year to year for NABIL and for BOK it is decreasing. Despite of this, it is found that the contribution of interest received from home loan towards net profit after tax is good.

#### **Position of Housing Loan**

- The proportion of housing loan in total loan and advance for BOK is in increasing trend in earlier Fiscal Year. But in later years it is in decreasing trend. But for Nabil it is in increasing trend.
- The amount of housing loan for BOK was Rs. 1102.5 million in 2007 and it has increased to 1478.88 million in 2011.
- Similarly, the ratio Nabil was Rs. 1923.3 million in 2007. And these amounts have increased to Rs. 5022.40 million in 2011.

From the above result, it is concluded that the position of housing loan for BOK and Nabil is in better position. All the banks are provided greater proportion of their fund on housing finance.

#### **Position of Total Loan and Advance**

- The amount of total loan disbursed by BOK and Nabil is in increasing trend.
- The total loan amount for BOK was Rs. 9663.6 million in 2007 and it has reached to Rs.17, 247.80 million in 2011.
- Similarly for Nabil the amount has increased from Rs. 15657.10 million in 2007 to Rs. 38765.60 million in 2011.

From the result, it I concluded that the position of total loan and advance for Nabil is comparatively better than BOK.

#### **Correlation between Housing Loan and Total Loan**

Correlation analysis between different variables of BOK and Nabil reveals that:

- It is found that the correlation between housing loan and of Nabil is highly positive; i.e  $r=0.728$ . It means, the BOK has increased its housing loan scheme each year in the same proportion at which the amount of loan ad advances is increased.
- Similarly, the correlation between housing loan and total loan of Nabil has high positive value; i.e.  $r=0.981$ , that indicates the relationship between two variables is very strong.

From the above result, it is seem that the relationship between housing loan and total loan of all the banks is significantly positive.

#### **Trend Analysis of Housing Loan**

- It is found that the amount of housing loan of BOK is fluctuated trend. The rate of change is Rs. 96.78 million i.e.  $b=96.78$ . The mean housing loan of one year period is Rs. 1473.20 million during the study period.
- It has been reveled that the amount of housing loan of Nabil is in increasing trend. The rate of change is Rs. 799.38 million i.e.  $b=799.38$ . The mean housing loan of one year period is Rs. 3745.16 million during the study period.

# **CHAPTER - V**

## **SUMMARY, CONCLUSION AND RECOMMENDATION**

### **5.1 Summary**

This chapter is concluding chapter. In this chapter, summary of the study and conclusion derived from the study are presented. At last recommendations on the basis of the major findings are presented for the implementation and improvement in the future.

Many commercial banks, development banks and financial institutions are operating in the economy to assist in the process of economic development in the country. Due to huge competition between the financial institutions, the collected huge amount of deposit from public is not properly invested. It is due to lack of demand for fund. So it is raised the problems of investment and proper mobilization of collected funds. Strong fund mobilization activities play a vital role in the overall development of economy of the nation.

The unplanned expansion of city, uncontrolled population growth, lack of basic facilities, deteriorating security, raise in nuclear families and working couples have resulted a sharp increase in demand for “home” like dwelling places. But, the continued high rates of population growth, the commercialization and growing regularization of land markets, the constricted supply of mortgage financing, reduced household purchasing power, the rising cost of imported building materials have made the access to their homes” very difficult. As the major motive of the commercial banks is to earn more profit, they want to discuss the deposits on loans and in different sectors. These days most of the commercial banks are moving towards the consumer financing. Housing finance is one of the most important sectors among the various consumer finance. Bank has to take minimum risk while providing housing loans to needy people. In earlier years bank made huge investment in housing sectors. Due to this the price of the houses and land suddenly increased and reach to maximum point. So to control down the prices, NRB issues directives in accordance to which bank should make an investment. Another important factor is that the

investment made in housing sectors is regarded as the investment made in the non productive sectors. So, NRB issues directives to limit the investment.

Today housing finance is one of the most important financing sectors of the commercial banks in Nepal. Though the private developers are initiating construction of different projects, general people are still deprived of the facility to own their houses. So, an independent study in these sectors will help people to find their way to the solution for their investment for their houses.

The main objectives of the research work are to examine, interpret and analyze the competitive factors of housing financing scheme adopted by the sampled banks i.e. BOK and NABIL. This study is also concerned with evaluation of the relationship between total loan and housing loan.

## **5.2 Conclusion**

Home loan is one of the most popular categories of consumer/retail lending which involves less risk, high return and rigorous competition in the Nepalese market scenario. Now a day the demand for the home loan is increasing not just due to the increase in the living standard of the people, but also due to easy lending process, longer tenure and more competitiveness and better service.

Through the customer survey and the use of statistical tools, the researcher concluded that the average age group of people who are more prone to take home loan is of the age of 35-40.

From the study ,it was found that among various professions, people engaged in any other profession, not in any particular profession are the most willing people to take home loan from banks though banks prefer to provide home loan to professionals like doctors and engineers due to their stable income and lesser default risk. The study also concludes that married people are more prone to take home loan. Homebuilders and websites are the most influencing source of information people consider while taking home loan. The procedure of taking home loan is found to be easy and more satisfactory in terms of convenience of taking loan for the customers of NABIL bank.

Home loan is a type of consumer loan from which bank can earn interest. Interest received is the main income of the bank. Hence, interest earned from home loan also makes contribution to the income of the bank. The proportion of home loan to total loan and advance and interest received from home to interest received from total loan and advance moves in different direction for NABIL bank but for BOK it moves in same direction. The percentage of interest received from loan to total interest received is fluctuating from year to year for NABIL bank but for BOK, it is decreasing every year. The main affecting factor is the interest rate which is different in every year. Moreover, when the interest rate of other investment is higher the percentage of the interest received from home loan will be lower and vice versa. From the analysis part, it is found that the contribution made from interest received from loan to net profit after tax is good.

The investment of NABIL bank in home loan is more than that of BOK bank. While observing the past five years periods data, it is found that the proportion of housing loan in total advance for NABIL bank is in increasing trend and for BOK it is in increasing trend in earlier years and decreasing in later years. The amount of housing loan for NABIL was Rs. 1923.30 millions in 2007. The amount has increased to Rs.5022.40 million in 2011. Similarly, the amount of BOK was housing Rs.1102.50 million in 2007. The amount has increased to Rs. 1478.80 million in 2011.

It is found that the amount of total loan disbursed by NABIL is in increasing trend. The amount was Rs. 15,657.10 million in 2007. The amount is seen to be increased by more than double amount in past five year periods. The amount is seen to be increased by more than double amount in past five year periods. Similarly, for BOK, the amount is in increasing trend and the amount has increased from Rs.9663.60 million in 2007 to Rs.17247.80 million in 2011.

It has found that correlation between housing loan and total loan of BOK, is positive, i.e.  $r=0.728$ , which indicates the relationship between two variables is strong.

It is found that correlation coefficient between housing loan and total loan of NABIL has high positive value, which indicates that the relationship between two variables is very strong. In other words when one variable changes by one time, other variable also changes by 0.922 times in same direction.

It is found that the amount of housing loan of BOK is fluctuated in decreasing trend. The rate of change is Rs.96.78 million i.e. 96.78. The mean housing loan of one year period is Rs.1473.20 million during the study period.

It has been revealed that the amount of housing loan of NABIL is in increasing trend. The rate of change is Rs. 799.38 million, i.e. b=799.38. The mean housing loan of one year period is Rs.3745.16 million during the study period.

### **5.3 Recommendation**

#### **General Recommendation**

Housing loan is not very different from loans from other purpose. The house buying process can be easier fraught with hassles. A big part of the issue tends to involve home loan although obtaining a housing loan is quite smooth and efficient process , many people find it frightening . this is largely because they go about the process unprepared or donot quite understand how home loan works. So it is recommended to the banks to make the process of home loan easy and people friendly. Other recommendation to the bank for providing home loans are as follows:

- The banks should fix the interest rate on the home loan according to the NRBs policies and guidelines
- The banks should make the documentation process standard, uniform and easy so that people will feel comfortable for applying home loan
- The banks should take care about the income of people applying for home loan to secure the payment from them
- As home loan has impact on profitability of banks, the banks should prepare appropriate portfolio of loan and advance which also include housing loan.
- Policies about providing housing loans shouldn't be static but should depend on the market scenario.

#### **Recommendation to Sample Banks**

Based on the findings and conclusion, the following recommendation has been forwarded. Market is very competitive and aggressive in home loan. In order to cope with high competitor, bank should focus on good marketing and sales. It's not only long tenure and low interest that attracts the customer; it's also about the good

customer service. Every bank should focus on customer service; customer should feel comfort that they want to deal with this bank.

- When there is less investment opportunity in the country, housing loan is one of the best avenues for investment. Regarding this, NABIL has disbursed large amount of fund for housing loan. However, BOK has disbursed little amount as home loan. So, it is recommended for them to increase the amount of house loan.
- Another factor hindering the growth of housing loan is its interest rate. So, the sample banks are requested to lower down the interest rate for home loan.
- Government should provide a regulatory climate conducive to the establishment of private specialized housing finance institutions by allowing them to compete effectively for savings and respond to market demand for loan rates.
- Banks are suggested to be more aggressive in providing the housing loans with improved EMI, interest rate and payback period.
- More simplified legal procedure should be established by the commercial banks to cater later the loans in efficient manner.

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## APPENDICES

### Appendix- I

#### Trend Analysis of Housing Loan of past period for BOK

(Rs in million)

Fiscal Year	Housing Loan(y)	x=X-2009	x <sup>2</sup>	xy	Trend Value Yc
2006/2007	1102.5	-2	4	-2205	1279.64
2007/2008	1380.5	-1	1	-1380.5	1376.42
2008/2009	1808.5	0	0	0	1473.2
2009/2010	1595.7	1	1	1595.7	1569.98
2010/2011	1478.8	2	4	2957.6	1666.76
	$\Sigma y=7366$	$\Sigma x=0$	$\Sigma x^2=10$	$\Sigma xy=967.80$	

Period 2009 assumed base

Fiscal Year

Since,  $\Sigma y = 7366$ ,  $\Sigma x=0$ ,  $\Sigma x^2=10$ ,  $\Sigma xy=967.80$ ,  $n=5$

Since,  $a = \frac{\sum Y}{N} = \frac{7366}{5} = 1473.2$

$$b = \frac{\sum XY}{\sum X^2} = \frac{967.80}{10} = 96.78$$

Now, Equation of Trend Line

$$Y_c = a + bx = 1473.20 + 96.78x$$

$$\text{Trend value for period 2011/2012} = 1473.20 + 96.78 * 3 = 1763.54$$

$$\text{Trend value for period 2012/2013} = 1473.20 + 96.78 * 4 = 1860.32$$

$$\text{Trend value for period 2013/2014} = 1473.20 + 96.78 * 5 = 1957.10$$

$$\text{Trend value for period 2014/2015} = 1473.20 + 96.78 * 6 = 2053.88$$

$$\text{Trend value for period 2015/2016} = 1473.20 + 96.78 * 7 = 2150.66$$

**Appendix- II**  
**Trend Analysis of Housing Loan of past period for NABIL**

(Rs in million)

<b>Fiscal Year</b>	<b>Housing Loan(y)</b>	<b>x=X-2009</b>	<b>x<sup>2</sup></b>	<b>xy</b>	<b>Trend Value Yc</b>
2006/2007	1923.3	-2	4	-3846.6	2146.4
2007/2008	2985	-1	1	-2985	2945.78
2008/2009	4014.5	0	0	0	3745.16
2009/2010	4780.6	1	1	4780.6	4544.54
2010/2011	5022.4	2	4	10044.8	5343.92
	$\Sigma y=18725.80$	$\Sigma x=0$	$\Sigma x^2=10$	$\Sigma xy=7993.80$	

Period 2009 assumed base Fiscal Year

Since,  $\Sigma y=18725.80$ ,  $\Sigma x=0$ ,  $\Sigma x^2=10$ ,  $\Sigma xy=7993.80$ ,  $n=5$

Since,

$$a = \frac{\Sigma Y}{N} = \frac{18725.80}{5} = 3745.16$$

$$b = \frac{\Sigma XY}{\Sigma X^2} = \frac{7993.80}{10} = 799.38$$

Now, Equation of Trend Line Yc=

a+bx

Trend value for period 2011/2012 = 3745.16 + 799.38\*3=6143.30

Trend value for period 2012/2013 = 3745.16 + 799.38\*4=6942.68

Trend value for period 2013/2014 = 3745.16 + 799.38\*5=7742.06

Trend value for period 2014/2015 = 3745.16 + 799.38\*6=8541.44

Trend value for period 2015/2016 = 3745.16 + 799.38\*7=9340.82

### Appendix- III

#### Trend Analysis of Total and Advance of past period for BOK

(Rs in million)

Fiscal Year	Total Loan and Advance(y)	x=X-2009	x <sup>2</sup>	xy	Trend Value Yc
2006/2007	9,663.60	-2	4	-19327.2	10404.7
2007/2008	12,692.90	-1	1	-12692.9	12336.96
2008/2009	14,894.70	0	0	0	14269.22
2009/2010	16,847.10	1	1	16847.1	16201.48
2010/2011	17,247.80	2	4	34495.6	18133.74
	$\sum y=71346.10$	$\sum x=0$	$\sum x^2=10$	$\sum xy=19322.60$	

Period 2009 assumed base Fiscal Year

$$\sum y=71346.10, \quad \sum x=0, \quad \sum x^2=10, \quad \sum xy=19322.60, \quad n=5$$

Since,

$$a = \frac{\sum Y}{N} = \frac{71346.10}{5} = 14269.22$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{19322.60}{10} = 1932.26$$

Now, Equation of Trend Line Yc

$$= a+bx$$

$$= 14269.22 + 1932.26x$$

$$\text{Trend value for period 2011/2012} = 14269.22 + 1932.26*3=20066$$

$$\text{Trend value for period 2012/2013} = 14269.22 + 1932.26 *4=21998.26$$

$$\text{Trend value for period 2013/2014} = 14269.22 + 1932.26*5=23930.52$$

$$\text{Trend value for period 2014/2015} = 14269.22 + 1932.26*6=25862.78$$

$$\text{Trend value for period 2015/2016} = 14269.22 + 1932.26*7=27795.04$$

### Appendix- IV

#### Trend Analysis of Total and Advance of past period for NABIL (Rs. In million)

Fiscal Year	Total Loan and Advance(y)	x=X-2009	x <sup>2</sup>	xy	Trend Value Yc
2006/2007	15,657.10	-2	4	-31314.2	15810.3
2007/2008	21,514.60	-1	1	-21514.6	21570.82
2008/2009	27,816.60	0	0	0	27331.34
2009/2010	32,902.80	1	1	32902.8	33091.86
2010/2011	38,765.60	2	4	77531.2	38852.38
	$\Sigma y=136656.7$	$\Sigma x=0$	$\Sigma x^2=10$	$\Sigma xy=57605.20$	

Period 2009 assumed base Fiscal Year

$$\Sigma y=136656.70, \quad \Sigma x=0, \quad \Sigma x^2=10, \quad \Sigma xy=57605.20, \quad n=5$$

Since,

$$a = \frac{\Sigma Y}{N} = \frac{136656.70}{5} = 27331.34$$

$$b = \frac{\Sigma XY}{\Sigma X^2} = \frac{57605.20}{10} = 5760.52$$

Now, Equation of Trend Line Yc=

$$a+bx = 27331.34 + 5760.52x$$

$$\text{Trend value for period 2011/2012} = 27331.34 + 5760.52 \times 3 = 44612.90$$

$$\text{Trend value for period 2012/2013} = 27331.34 + 5760.52 \times 4 = 50373.42$$

$$\text{Trend value for period 2013/2014} = 27331.34 + 5760.52 \times 5 = 56133.94$$

$$\text{Trend value for period 2014/2015} = 27331.34 + 5760.52 \times 6 = 61894.46$$

$$\text{Trend value for period 2015/2016} = 27331.34 + 5760.52 \times 7 = 67654.98$$

## Appendix- V

### Correlation between Housing loan and Total loan for BOK (Rs in million)

Fiscal Year	Housing Loan (X)	Total loan (Y)	X.Y	X <sup>2</sup>	Y <sup>2</sup>
2006/2007	1102.5	9,663.60	10654119	1215506.25	93385164.96
2007/2008	1380.5	12,692.90	17522548.45	1905780.25	161109710.4
2008/2009	1808.5	14,894.70	26937064.95	3270672.25	221852088.1
2009/2010	1595.7	16,847.10	26882917.47	2546258.49	283824778.4
2010/2011	1478.8	17,247.80	25506046.64	2186849.44	297486604.8
	$\Sigma X=7366$	$\Sigma Y=71346.10$	$\Sigma XY=107502696.50$	$\Sigma X^2=11125066.68$	$\Sigma Y^2=1057658347$

$$r_{XY} = \frac{N \Sigma XY - (\Sigma X)(\Sigma Y)}{\sqrt{N \Sigma X^2 - (\Sigma X)^2} \sqrt{N \Sigma Y^2 - (\Sigma Y)^2}}$$

Where:

- N = Number of observation in series X and series Y
- $\Sigma XY$  = Sum of the product of the observations in series X and series Y
- $\Sigma X$  = Sum of the observations in series X
- $\Sigma Y$  = Sum of the observations in series Y
- $\Sigma X^2$  = Sum of the square of observation in series in X
- $\Sigma Y^2$  = Sum of the square of observation in series in Y
- r = Karl Pearson's coefficient of correlation

$$r_{xy} = \frac{5 - (7366)(71346.10)}{\sqrt{5 \times 11125066.68 - (7366)^2} \sqrt{5 \times 1057658347 - (71346.10)^2}} = 0.728$$

$$P.E.r = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.142$$

## Appendix- VI

### Correlation between Housing loan and Total loan for NABIL

(Rs in Millions)

Fiscal Year	Housing Loan (X)	Total loan (Y)	X.Y	X <sup>2</sup>	Y <sup>2</sup>
2006/2007	1923.3	15,657.10	30113300.43	3699082.89	245144780.4
2007/2008	2985	21,514.60	64221081	8910225	462878013.2
2008/2009	4014.5	27,816.60	111669740.7	16116210.25	773763235.6
2009/2010	4780.6	32,902.80	157295125.7	22854136.36	1082594248
2010/2011	5022.4	38,765.60	194696349.4	25224501.76	1502771743
	$\Sigma X=18725.8$	$\Sigma Y=136,656.70$	$\Sigma XY=557995597.30$	$\Sigma X^2=76804156$	$\Sigma Y^2=4067152020$

$$r_{XY} = \frac{N \Sigma XY - (\Sigma X)(\Sigma Y)}{\sqrt{N \Sigma X^2 - (\Sigma X)^2} \sqrt{N \Sigma Y^2 - (\Sigma Y)^2}}$$

Where:

- N = Number of observation in series X and series Y
- $\Sigma XY$  = Sum of the product of the observations in series X and series Y
- $\Sigma X$  = Sum of the observations in series X
- $\Sigma Y$  = Sum of the observations in series Y
- $\Sigma X^2$  = Sum of the square of observation in series in X
- $\Sigma Y^2$  = Sum of the square of observation in series in Y
- r = Karl Pearson's coefficient of correlation

$$r_{xy} = \frac{(5 \times 557995597.30) - (18725.8 \times 136,656.70)}{\sqrt{5 \times 76804156 - (18725.8)^2} \sqrt{5 \times 136656.70 - (4067152020)^2}} = 0.981$$

$$P.E.r = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.011$$

# QUESTIONNAIRE

A research project undertaken in partial fulfillment of the requirements for the Master's degree in Business Studies.

Dear Sir/Madam

I am conducting a study titled "Comparative Study on Home Loan of NABIL bank and Bank of Kathmandu". I'll be very grateful if you kindly respond to the questionnaire. It will be helpful for my thesis writing. Your kind co-operation in this regard will be highly appreciable.

Thank You.

Name:

1 Gender

- A. Male                      B. Female

2 Age

- A. Below 25              B. 25-35                      C. 35-45                      D. above 40

3 Marital Status

- A. Married                      B. Unmarried

4 Level of Education

- A SLC              B 10+2                      C Bachelor                      D Master                      E Above Master

5 Personal monthly income

- A. <20,000                      B. 20,000-30,000                      C. 30,000-50,000                      D. >50,000

6 Occupation

- A. Doctor                      B. Personal Business                      C. Engineers  
D. Service in Public and Private Sector                      E. Any Other

7 If you have surplus money to invest, in which area would you like to invest ?

- A. Real Estate                      B. Financial Assets                      C. Auto Mobile                      D. Any  
Other

8 Which way you prefer to buy house?

- A. Home Loan      B. Full Cash Payment      C. None      D. Any Other

9 Which financial institution would you prefer for home loan ?

- A. Banking      B. Finance Company      C. Co-operative Company      D. Any Other

10 On which basis you take the decision to choose the company?

- A. Friends      B. Home Builders      C. Marketing      D. Website

11 Percentage of loan taken out of total amount

- A. 80%      B. 70%      C. 60%      D. others

12 What do you think of procedure of taking Home-Loan from the bank?

- A. Easy      B. Very Lengthy      C. Fast  
D. Simple      E. Friendly Dealing

13. Are you satisfied with Home – Loan service of bank?

- A. Satisfied      B. Neutral  
C. Strongly Satisfied      D. Strongly Dissatisfied