

# “AN EMPIRICAL STUDY ON BORROWERS PERCEPTION TOWARDS HOUSING LOAN IN RAMANATHAPURAM”

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## ABSTRACT

Every citizen of the country dreams of having his own house. This takes precedence over other household expenditure and creature needs. Housing is a major expenditure and cannot be funded out of a family's normal monthly income or savings. The prospective homeowner must look for a loan substantial in size and so structured that he (borrower) can repay it over a longer period of time. The demand for housing has increased rapidly due to population growth, migration from rural areas to urban areas, the decay of the existing housing stock and breakdown of traditional joint families. Since housing requires huge investment, a critical constraint for the development of housing is lack of finance. Home loans means that you buy a house on installments, in other words when you want to own a home and cannot afford to pay the amount in lump sum, you can pay it in monthly installments with an interest rate. On an average a person spends almost two-thirds of his life in a house which is his sanctuary in his old age. In rural areas the situation is even more alarming. This paper describes and analyses the perceptions and problems of home loan takers in Ramanathapuram. It offers policy options to make the housing finance more effective in addressing the hitherto neglected segment, the rural and less-developed region.

**Keywords:** Financing, Banking, Loans, Housing loans and borrowers.

## I. INTRODUCTION

Owing a house is the prestigious aim and dream of every one in his or her life. Ownership of a house provides not only shelter to the individuals but it ensures the identity, self-esteem, privacy and improves the scope for participation in the society. It also enhances family life and facilitates social and cultural life of the individual. But at present constructing a house is not an easy job. It requires a huge amount of money, with limited monthly income; a person cannot complete his “dream house.” He needs external assistance in the form of housing finance. Considering the importance of housing sector, central and state governments are implementing various housing schemes. Moreover various housing finance institutions and banks are

extending their services to meet the growing demand for housing<sup>1</sup>. Housing is not only one of the three basic needs of human beings but also an indicator of nation's progress in terms of human development. World over housing is considered as a means of long term wealth accumulation and financial security. Home ownership is a basic requirement and the primary sources of wealth for the middle and lower income groups. In India the task of facilitating affordable and adequate shelter to all is yet to be accomplished despite all round economic growth, well established planning process and increased access to institutional finance through expansion of credit delivery channels<sup>2</sup>.

The Indian housing finance market cannot be looked at independently of the government's role in the overall financial sector, which is nowadays characterized by a process of liberalization. However, the Indian government has tried, and is still trying, albeit to a lesser extent, to stimulate economic development by controlling interest rates and directing credit to priority sectors. Furthermore, private sector housing finance has been developed since 1977 and the creation of the National Housing Bank had helped the sector to develop further<sup>3</sup>.

## II. STATEMENT OF THE PROBLEM

Every human being wants their own house. House is a profitable and useful in the future and furnishes propulsion to economic development. But in today's scenario buying the home is a challenging chore, because it is a major expenditure. A middle class family cannot afford this expenditure. To resolve this activity, government provides housing finance loan facility for every person at lower interest rate. Housing finance sector encourage of tax rebates. Housing finance means to take a home on loan basis in which we pay monthly installments with favorable interest rates<sup>4</sup>. A loan facility has been provided on the basis of people's eligibility and the bank's rules. Many number of banks and financial institutions entered in housing financing sector which offer cheap loans at low interest rate. Interest rate is very important part of loans. Indian housing finance market is the second largest employment generator next to agriculture. As it is a labour intensive sector, any change in housing finance sector has a direct impact on income and employment status in the country. It is clear that, housing which is a basic need may not be financed completely from the personal savings of an individual. So there arises the need to finance a house. Nowadays there are more and more agencies coming forward to financing this sector. Commercial banks are considered most important among them. So, the present study is an attempt to evaluate the housing finance provided by public banks in Ramanathapuram<sup>5</sup>.

<sup>1</sup> Jay Sampath.2006, *Tackling rising home loan rates, Dalal Street, Vol XXVII, No.21, June2006, pp 89-91* .

<sup>2</sup> Swapna Gopalan.2004, *Functioning of Housing Finance institution, Business World, May2004, pp 12-13*.

<sup>3</sup> Jasmindeep Kaur. 2008, *Problems of Housing Finance in India, Abhigyan, Vol. XXV, No.4, Mar, 2008, pp 24-32*.

<sup>4</sup> Praveen Gupta.2005, *Housing Finance Companies – An insight into regulatory aspects, The Chartered Accountant, Vol LIV, No.5, Feb-2005, pp 1010-1014*.

<sup>5</sup> *Annual Report – 2008, Ministry of Urban Development & Poverty Alleviation, GOI*.

### III. NEED OF THE STUDY

Loan is offered to a borrower to purchase or build a new house on the basis of his/her eligibility and the bank's lending rules. One of the important basic human needs is shelter. House is the ultimate dream of every middle class family. One of the most important benefits of taking a home loan is the interest rate that is allowed on the home loan. Fixed and variable interest rate options are also available for home loans. Many financiers also offer home improvement loans at the same interest rate as they offer the home loans. The housing finance is expected to grow at a rate of 20-22% from the financial year 2016 onwards as per the report of ICRA. This is a positive development for the home loan borrowers to go for home loans, thereby creating more demand for the loans, which is a major push for home loan lenders, which increases competition between public and private sector banks. Both, the public sector and private sector banks are coming up with certain schemes to attract the customers.

### IV. REVIEW OF LITERATURE

**Thingalaya.N.K (2009)**, their article critically reviewed the growth of housing finance in India with a case study of the experiences of three banks - Syndicate Bank, Corporation Bank and Karnataka Bank. Their study observed that the private sector banks have become very aggressive in the housing loan segment; the rapid growth of housing finance is concentrated mainly in metropolitan and urban areas etc.

**Nikhil Ranjan Agarwal (2014)**, in the study the Indian scenario study found that majority of the respondents was satisfied from their banks or housing finance companies. The rates of interest charged by the public banks were comparatively lesser than the others in Indian scenario.

**George Thomas P (2014)**, His study analyzed the perception of the home loan borrowers regarding the services provided by housing finance institutions, particularly, Nationalized Banks and Co-operative Banks working in Kerala

**Thakur G. (2014)**, this study concluded that people prefer H.D.F.C. bank more than S.B.I. bank for home loan. As private banks are coming daily in our country still, mostly people prefer government banks for loan especially older persons are more dependent on government banks. It is true that younger population preference is changing and they prefer more private banks because of services and facilities provided by private banks. The interest rate is lower in public (S.B.I.) bank in comparison with private (H.D.F.C.) bank but services are not up to the mark.

**Murugan and Jansirani (2017)** a study carried out in Chennai to Customer perception towards home loan by selecting the 500 customer on randomly basis. This study made an attempt to evaluate in depth the performance and operational problems faced by the banking sector in extending finance to the housing sector and based on findings; identify the areas of concerns and strategic interventions required.

### V. OBJECTIVES OF THE STUDY

- 1) To know about reason for choosing housing loan from that particular banks in Ramanathapuram.
- 2) To analyse the perception of borrowers with respect to various housing loan facilities provided by banks.

3) To study the satisfaction level of borrowers towards home loans.

## VI. OPERATIONAL DEFINITION

- Home purchase loans for purchase of a new home.
- Home improvement loans for repair works and renovations of a home.
- Home construction loans for a new home.
- Home expansion loans for extending an existing home, e.g. addition of an extra room.
- Land purchase loans for home construction or investment purposes.
- Bridge loans to sell the existing home and purchase another.
- Balance transfer loans to pay off an existing home and avail the option of a loan with a lower rate of interest.
- Refinance loans to pay off the debt that have incurred from private sources.
- Stamp duty loans to pay the stamp duty amount that need to pay on the purchase of property.
- NRI home loans only for NRI to build or buy a home or land property in India.

## VII. FRAMED HYPOTHESIS

**H0:** There is no significant relationship between the independent variable and the dependent variable of the respondents.

**H1:** There is significant relationship between the independent variable and the dependent variable of the respondents.

## VIII. METHODOLOGY (Sampling)

- ✓ Sample size - 125 respondents,
- ✓ Respondents - Borrowers
- ✓ Sampling Method - Stratified sampling method,
- ✓ Sample Plan - Interview schedule (Primary Data)
- ✓ Sample Unit - the banks of Ramanathapuram (5).
- ✓ Sample area - Ramanathapuram
- ✓ Data analysis - SPSS (IBM 25.0)

**Table 1**  
**Distribution on Sample Size**

Sl.no	Type of loan (home loan)	BOI (S1)	IOB (S2)	ICICI (S3)	HDFC (S4)	CANARA BANK (S5)	Total
1	Home purchase loan	5	5	5	5	5	25
2	Home construction loan	5	5	5	5	5	25
3	Home improvement loan	5	5	5	5	5	25

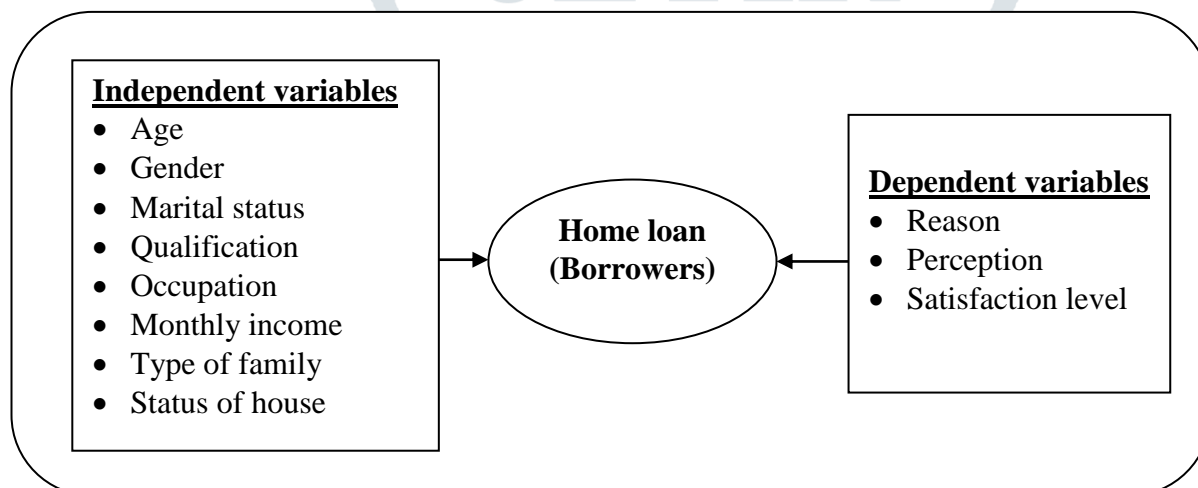
4	Home extension /expansion	5	5	5	5	5	25
5	Land purchase loan	5	5	5	5	5	25
	<b>Total</b>	<b>25</b>	<b>25</b>	<b>25</b>	<b>25</b>	<b>25</b>	<b>125</b>

Source: Primary Data

**IX. LIMITATIONS**

- Sample selection was very difficult because the sample units were limited and the response rate was very low, the survey was limited to 5 banks only.
- Information collection turned out to be tedious since respondents responded only after regular follow-ups and frequent reminders and is also subject to recall bias.
- Only 5 most important types of home loan was taken for the study, being there are other types also.
- Time and money factors have been constraints and the research exercise was conducted within a limited time.

**X. FRAMEWORK OF ANALYSIS**



**XI. ANALYSIS OF DATA**

**Table 2**  
**Distribution on Demographic profile of respondents**

Sl.no	Profile	Particulars	No. of respondents	Percentage
1	Age	18 to 35 years	37	29
		36 to 45 years	38	31
		46 to 60 years	30	24
		61 & upto 70 years	20	16
2	Gender	Male	75	60
		Female	50	40
3	Marital status	Married	97	78
		Un married	28	22
4	Occupation	Government employee	43	34
		Private employee	32	26
		Self-employed	25	20

		Retired (PF)	25	20
5	Monthly Income	25000-35000	45	35
		35001-45000	47	37
		Above 45001	33	26
6	Qualification	Primary level	32	25
		Secondary level	24	19
		Graduates	44	35
		Above post graduation	25	22
7	Type of family	Joint	14	11
		Nuclear	111	89
8	Status of home	Own	15	12
		Rented	91	73
		For leasing	19	15

Source: Primary Data

**Table 3**  
**Distribution on Reasons for selecting the particular bank (Factor analysis)**

Sl.no	Sample units	S1	S2	S3	S4	S5
	Reasons					
1	R1	0.792	0.616	0.523	0.775	0.600
2	R2	0.791	0.578	0.732	0.759	0.529
3	R3	0.791	0.519	0.798	0.762	0.452
4	R4	0.425	0.639	0.719	0.792	0.516
5	R5	0.695	0.602	0.541	0.791	0.578
6	R6	0.653	0.666	0.666	0.691	0.919
7	R7	0.619	0.625	0.665	0.825	0.539
8	R8	0.637	0.686	0.609	0.895	0.502
9	R9	0.762	0.670	0.764	0.853	0.466
10	R10	0.766	0.417	0.771	0.819	0.425
11	R11	0.725	0.501	0.702	0.737	0.386
12	R12	0.425	0.665	0.816	0.655	0.484
13	R13	0.425	0.673	0.841	0.674	0.451
14	R14	0.558	0.658	0.770	0.623	0.382
15	R15	0.594	0.678	0.709	0.621	0.471
16	R16	0.558	0.594	0.830	0.673	0.447
17	R17	0.509	0.530	0.873	0.665	0.450
<b>h<sup>2</sup></b>		0.703	0.675	0.742	<b>0.797</b>	0.568
Percentage of variation		12.891	9.154	13.358	14.598	8.181
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalisation, A Rotation converged in 5 iterations						

Source: Computed Data

**Table 4**  
**Distribution on Perception of borrowers towards home loan**

Sl.no	Particulars	Mean	S.D	Rank
1	P1	4.40	1.79	XIII
2	P2	<b>1.89</b>	<b>1.45</b>	<b>I</b>
3	P3	1.94	1.19	III
4	P4	2.18	0.68	VI

5	P5	1.97	1.55	V
6	P6	1.94	1.19	III
7	P7	<b>1.89</b>	<b>1.45</b>	<b>I</b>
8	P8	4.81	1.76	XV
9	P9	3.72	1.81	X
10	P10	2.54	0.62	VII
11	P11	3.45	2.43	IX
12	P12	4.33	1.73	XII
13	P13	3.17	2.20	VIII
14	P14	4.88	2.17	XVI
15	P15	3.93	1.88	XI
16	P16	4.99	1.62	XVIII
17	P17	4.51	1.20	XIV
18	P18	4.88	2.17	XVI

Source: Computed Data

**Table 5**  
**Distribution on Satisfaction level of borrowers towards home loan**

Sl.no	Particulars	SA	A	N	DA	SDA	M.S	M.R
1	SL 1	321	176	43	2	1	<b>4.86</b>	<b>1</b>
2	SL 2	240	161	84	13	2	4.00	9
3	SL 3	169	200	66	30	4	3.75	11
4	SL 4	193	187	65	21	7	3.79	10
5	SL 5	289	167	53	8	3	<b>4.86</b>	<b>1</b>
6	SL 6	151	169	113	23	3	3.68	13
7	SL 7	439	135	6	2	1	4.66	4
8	SL 8	294	205	24	9	3	4.27	6
9	SL 9	278	178	50	10	3	4.15	8
10	SL 10	301	205	28	6	1	4.33	5
11	SL 11	186	141	101	35	1	3.71	12
12	SL 12	438	141	3	2	1	4.67	3
13	SL 13	336	155	27	14	3	4.28	7
14	SL 14	115	191	127	17	3	3.63	14

Source: Computed Data

**Table 6**  
**Chi-square distribution on overall result of hypothesis testing @5% level of significance**

Sl.no	Independent variable	Dependent variable	p-value	Result
1	Age	Reason	0.023	<b>Significant</b>
		Perception	0.049	
		Satisfaction level	0.035	
2	Gender	Reason	0.000	<b>Significant</b>
		Perception	0.016	
		Satisfaction level	0.008	
3	Marital status	Reason	0.000	<b>Significant</b>
		Perception	0.048	
		Satisfaction level	0.042	
4	Occupation	Reason	0.001	<b>Significant</b>
		Perception	0.003	
		Satisfaction level	0.001	
5	Monthly income	Reason	0.001	

		Perception	0.041	<b>Significant</b>
		Satisfaction level	0.022	
6	Qualification	Reason	0.001	<b>Significant</b>
		Perception	0.008	
		Satisfaction level	0.029	
		Reason	0.001	
7	Type of family	Perception	0.032	<b>Significant</b>
		Satisfaction level	0.025	
		Reason	0.001	
8	Status of home	Perception	0.048	<b>Significant</b>
		Satisfaction level	0.029	
				Reason

**Source: Computed Data**

## XII. FINDINGS OF THE STUDY

**Profile of respondents:** Under the various categories in profile it is found that majority of the respondents in age group fall under 36-45 years (31%), gender fall under male (60%), marital status under married (78%), occupation under government employees (34%), monthly income under 35001 – 45000 (37%), qualification under graduates (35%), type of family under nuclear (89%) and status of home under rented (73%). It was also found that only the individuals earning above 25000 is eligible for getting home loan, female borrowers are availed to many benefits for taking home loans, retired people getting pension or provident fund are also eligible for availing home loan and finally the age limit is 18 to 70 years for availing the loans.

**Reason: (Factor analysis):** The component factor loading; the component identified for loading is ECSR indicators [R1 to R17] R1: Interest rate, R2: Payback period, R3: Flexibility, R4: Prepayment penalty, R5: Down payment, R6: Insurance, R7: Disbursement, R8: Miscellaneous expenses, R9: Guarantor, R10: Hidden charges, R11: Good treatment in products & services, R12: Reputation of bank, R13: Cooperation with the bank, R14: Employees' courtesy, R15: Staff R16: Procedure and R17: Physical presence. The factor for loading with the component is sample units[S], 5 iterations are allowed for this factor to load with the component, for the purpose of loading the iterations are named as S1 to S5 (sample units). All the 5 sample units showed positive loading with the component, therefore it can be concluded that there is positive loading at 0.01 and 0.05 level of significance for the factors and the highest loaded iteration is S4 (HDFC) with  $h^2$ : 0.797.

**Perception :( Simple Ranking)** P1: Rate of interest, P2: Period of payment, P3: Terms and conditions, P4: Easy documentation, P5: Amount granted, P6: Speedy processing, P7: Support of the bank staff P8: Cordial approach of the bank, P9: Easy accessibility of the bank, P10: Progressive funding, P11: In-house legal and technical services, P12: Tax benefit, P13: Easy repayment conditions, P14: Best choice than other sources, P15: Period offered for payment of loan, P16: Loan schemes, P17: Prepayment penalty, P18: Home Insurance and P19: Lesser miscellaneous charges, it is found that Period of payment and Support of the bank staff are ranked first.



**Satisfaction level: (Likert scaling)** SL1: Promptness of the sanctioning of Loan, SL2: Promptness in disbursement, SL3: Safety-security- Privacy, SL4: Loan Availability, SL5: The service quality, SL6: Easy/Cumbersome way of loan process, SL7: Cooperation of Staff, SL8: Documentation, SL9: Guarantee, SL10: Security, SL11: Rate of Interest, SL12: EMI, SL13: Calculation of interest- Daily/Monthly/Yearly and SL14: Processing fee/administration fee. It is found that Promptness of the sanctioning of Loan and The service quality are ranked first.

**Testing of hypothesis: (Chi-square)** with regard to the chi-square test at 5% and 1% level of significance, it is found that the p-value is less than 0.05 thus it is concluded that each variable had significant relationship, that is the null hypothesis H<sub>0</sub> was rejected and the alternative hypothesis H<sub>1</sub> was accepted.

### **XIII. SUGGESTIONS and RECOMMENDATIONS**

#### **Suggestions**

1. The loan application formalities should be simplified.
2. Most of the borrowers opined that institutions should not charge any processing, administration, conversion fee and other charges like prepayment penalty.
3. The borrowers suggested that institutions should provide online approval of applications.
4. The change in the terms and conditions especially with regard to interest rate, the concerned borrower should be informed.
5. HFIs should inform the reason for rejecting the loan application. This will help the applicants in rectifying their mistakes.
6. To win confidence of the borrowers and bring transparency in all the transactions, it is necessary that their loan accounts should be made available on the Internet.
7. The borrowers suggested that the loan processing/sanctioning time should be reduced further.
8. All employees, especially the front officers should be familiar with the details of Housing Loan schemes of their banks.
9. All information regarding Housing Loans should be available on the websites in an interactive mode.
10. There should be uniformity in loan sanction procedure, interest rate structure among the various banks offering home loan.

#### **Recommendations**

An important lesson from the case described, which is probably beyond the Indian context, is that a credit mechanism which fits an incremental way of building should be developed instead of trying to fit the poor into the existing housing finance jacket. Such credit should be characterized by short- or medium-term credit, relatively small amounts and flexible repayment methods. In other words, an enabling strategy for the poor has more potential than encouraging the private sector to serve the small man. Reform of the housing finance schemes for middle- and low-income households should take place simultaneously. If emphasis is put on the development of housing finance schemes for the poor and schemes for the middle-income

households are neglected, middle-class groups will probably appropriate the schemes meant for the poor. Instead of interest subsidies on housing loans for the poor, one-time grants for households may be a better way to help them.

#### XIV. CONCLUSION

Market driven economy has offered many choices to the customers. Indian banking industry is very competitive as it stood at the time of crisis like recession/slowdown in world economy. It is growing at respectable growth rate as customers' needs are taken care of and it is governed under the strict vigilance of RBI. The Housing Finance in India faced a number of set-backs in decades, such as an unorganized market, development disparities and compartmentalized development approach. There was not even a concerted attempt to understand the housing problem let alone promote it. Reforms introduced in the sector during the 1990s, however, have overturned the situation to a great extent. The deigning of a shelter policy, the organization of the housing finance market, the introduction of fiscal incentives, increased public investment, legal reforms and others initiatives have brought about a number of changes in the housing finance. Home Loan providers should continue to address the huge potential in the industry and would maintain their focus on the individual loan segment. A trend that has emerged over the years in the housing finance is that the decreasing role of interest rates as a competitive tool. Service and product innovations are the key tools for success at present.<sup>6</sup>

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