

Searching for a Home Loan: The Motivating Factors to Select a Bank

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ABSTRACT

Adequate shelter for each and every household is a fundamental prerequisite for a healthy living in any society. With an increase in prices and the reduction in purchasing power, a man cannot accumulate huge funds at a time. So, in order to fulfill its basic necessity, a man has to go for a home loan. Choice housing finance is a most significant decision because it requires a huge capital investment as well as a long term commitment for a period of 15-20 years. The borrower should consider various factors before availing the finance from formal sources. While studying the perception of borrowers the socioeconomic and demographic factors are also studied and the effect of their influence is also assessed. This study is trying to analyse the influence of rate of interest, security and legal requirements, margin money, EMI, convenience and customer services to select a bank for home loan. The study observed that margin of money and EMI are the most influencing factors.

Keywords: Housing finance, customer perception.

INTRODUCTION:

Housing is one of the most important basic needs next only to food and clothing for leading a safe and dignified life. Every youngster who begins his life have dream of having his own house. Most of the people are not able to afford it out of his own personal income and savings. So they prefer to borrow from either formal or informal sources. Informal sources include savings of family, assistance from friends and relatives, sale of property, chitty, provident fund etc. formal source include loans from commercial banks, Housing finance companies, specialised institutions, building societies, cooperative societies etc. The various types of housing loan such as home extension loan, home improvement loan, plot plus construction loan, construction loan and conversion loan are offered by commercial banks and private banks. In this period of decreasing interest rates, the bank are offering a competitive interest rates and more customer friendly features for every home loan to explore all avenues to exist in market.

Factors in influencing (attributes) the customer in selecting a financial institution for housing loan

Rate of Interest:

The rate of interest is the basic factor considered by people in selecting the loan provider. The repayment of home loan comprises of a large portion of interest rates and principal amount. Naturally, people compare the interest rate of other agencies before finalising one. However, the comparison becomes difficult as the interest rate varies on the basis of the loan amount as well as the loan tenure. Further, the softening of interest rate after availing loan by beneficiaries might have influenced their satisfaction level.

Security Requirements:

Generally, the first mortgage on the property that is the title deed has to be provided to the bank as security against the loan. Banks or housing finance companies ensure that the property is free from any

concern that could adversely affect the property. Some banks or housing finance companies ask for collateral security also. Sometimes, borrowers may find it difficult to fulfill all the security requirements demanded by the lender.

Repayment Mode:

The bank will give the loan and also they in the form of a repayment model that they felt would be ideal for customers to pay his equated monthly installments (EMI). The borrowers are given wide options to repay the loan installments at their convenience. These include direct remittance, a deduction from salary, payment through demand draft, depositing postdated cheques and so on.

Margin Money:

In India, Banks are authorized by the Reserve Bank of India to lend only up to 80% of the purchase price of a property. The balance of 20%, referred to as "down payment" has to be arranged by the borrower. Down payment is basically margin money for a loan which has to be paid up-front by the homebuyer. The requirement has been stipulated by RBI with a view to regulate real estate lending and impose a check on banks financing for homes without any limit

Courtesy Treatment by Staff:

Better dealings with organizational staff are very important, particularly in service organization in a highly competitive market. The dealings of the staff will have great influence on borrowers which is reflected in their level of satisfaction. It is the cementing force which makes the customers sticks on to the organisation.

Easy Accessibility:

Accessibility of the lending institution to the borrower is a decisive factor in the selection of a lender.

Requirement of Documents:

The documents required to be submitted for availing housing loan are almost the same in most HFIs. However, the services rendered in connection with obtaining the documents vary among specialized HFIs, commercial banks and co-operative institutions. Specialized HFIs undertake the task of obtaining the different documents such as legal opinion certificates, stage valuation certificate and the like. This will relieve the beneficiaries of the botherations of obtaining them, thereby saving their valuable time and effort.

Eligibility Norms:

The beneficiaries can avail the loan up to the eligible amount as per the eligibility norms prescribed by HFIs. The eligible amount of loan is ascertained on the basis of the value of property mortgaged and also the repaying capacity of the borrower.

LITERATURE REVIEW:

1. (B.C.M., Satpathy, & Samal, 2018)¹ analysed perception and satisfaction by using the variables like dealing with staff, home loan schemes, margin of money available in home loan, security requirements for the loan, processing fee, the rate of interest, affordable installment and innovative services. In their study they found that variables have a significant impact on the satisfaction of customers.
2. (Murugan & Jansirani, 2017)² analyzed the customer perception of home loan offered by various banks in Chennai city and observed that the housing finance sector is highly competitive and the bank should ensure the sustainability by evaluating its failure in the present housing finance systems.
3. (G & Riar, 2016)³ studied the factors motivated a customer for selecting a bank in Punjab. They observed that the variables like, low processing fee, installment options, customer services, repayment mechanism, simple procedure, desired amount of loan and the comparative interest rate have high impact on the customer's choice for selecting the bank for a home loan.

¹B.C.M., P., Satpathy, I., & Samal, N. R. (2018). Satisfaction Management for Home Loan –A Study on Indian Public-Sector Banks. *BULMIM Journal of Management & Research*, 11–16.

²Murugan, M. S., & Jansirani, J. (2017). *Consumer Perception towards Home Loans*. International Journal of Trend in Research and Development (IJTRD).

³G, B. S., & Riar, M. (2016). Customers Perception Towards Home Loan :A Study Conducted in Punjab. *IOSR Journal of Business and Management (IOSR)*, 9-14.

4. (Agarwal & Araya, 2017)⁴ analyzed the performance of LICHFL and SBI in terms of their products and services to satisfy the home loan customers. They consider the variables like transparency in the process of sanction of loan, solve customer problems, loan processing time, the quality services, effective redressal procedure, good return on investment are the highly influence the customers.
5. (Cleedin, 2012)⁵ studied the perception of home loan customers of housing financial institutions in Kanuakumari. He observed that the factors like source of information, quantum of loan, the rate of interest, repayment options, processing fee etc were influenced majority of the customers for selecting financial institution.
6. (Kumar, 2012)⁶ studied the quality of services rendered by LICHFL and HDFC in Hyderabad. He observed that the variables like loan sanctioning trends, the process of loan processing, savings, family commitments, liability of borrowers, affordable EMI and tax benefits etc. were great motivation to borrowers for availing home loan.
7. (Umamageswari & Subhashree, 2016)⁷ studied the customer preference with respect to housing loan housing loan offered by public sector and private sector banks in Udumalpet. They found that Procedure to get loan, processing period, insurance coverage is important factor preferred by respondents for selecting the banks for a home loan.

OBJECTIVE OF THE STUDY:

1. To study the consumer perception towards housing loan.
2. To identify the motivating factors to select a bank for housing loan.

Research methodology:

The study, based on following methodology

Type of research:

This study is an analytical nature, conducted to know the motivating factors to select a bank for housing loan

Scope of the Study:

The proposed study about the motivating factors to select bank for housing finance restricted to State Bank of India in Kannur district.

Sampling technique and size:

Simple random sampling used as a sampling technique to select samples from the population. Randomly selects Sreekandapuram Municipality from Kannur District and collect data from 30 respondents.

Source of data:

Both primary and secondary data were used for the study. Primary data were collected through structured schedule from respondents. The main source of data includes, journals, official website of census India etc.

Statistical tools used for Analysis and Interpretation:

The information gathered was tabulated and analyzed by using mean, standard deviation and independent sample t test.

ANALYSIS AND INTERPRETATION:

Table 1: Occupation of Respondent

	Frequency	Percent	Valid Percent	Cumulative Percent
Govt. Employees	20	66.7	66.7	66.7
Private Employees	10	33.3	33.3	100.0
Total	30	100.0	100.0	

⁴Agarwal, M., & Araya, P. (2017). A Study Of Customers' Perception and Satisfaction Towards Housing Loans of LIC Housing Finance Ltd. and SBI Bank In Haldwani Region. Smart journal of Business Management Studies, 61-72.

⁵Cleedin, F. (2012). Housing Finance in Kanyakumari District. PhD Thesis, Manonmaniam Sundaranar University, Tirunelveli, Research Centre in Commerce Women's Christian College, Nagercoil.

⁶Kumar, K. S. (2012). Housing Finance by LIC Housing Finance Limited and Housing Development Finance Corporation with special reference to Hyderabad. PhD Thesis, Acharya Nagarjuna University, Department of Commerce & Business Administration.

⁷Umamageswari, K., & Subhashree, S. (2016). A Comparative Study on Customer Preference towards Housing Loan Offered By Banks in Udumalpet. International Conference on "Research avenues in Social Science" (pp. 53-58). Coimbatore: SNGC.

Table 1 Represents occupation of the respondents. It is clear that, out of 30 respondents, 66.7% of respondents are Govt. Employees and remaining 33.3% are Private employees. Here interpreted that majority of respondents are Govt. employees.

Table 2: Descriptive Statistics

Motivating factors to select a bank for home loan	N	Mean	Std. Deviation
Margin money	30	4.40	.621
Rate of interest	30	3.73	.740
Repayment mode	30	4.03	.890
Eligibility norms	30	3.30	.877
Requirement of documents	30	3.63	.850
Security requirements	30	3.40	1.070
Easy accessibility	30	3.80	.761
Courtesy treatment by staff	30	3.90	.759
Valid N (listwise)	30		

Table 2 represent Descriptive statistics.

By comparing the mean value of motivating factors the mean value of margin money (4.40) is high. This shows the most influencing factor to select a bank for home loan is margin money. Next important motivating factor is repayment mode (mean = 4.03) and among the factors least motivating factors are eligibility (mean = 3.30) norms and security requirements (mean = 3.40).

HYPOTHESIS:

1. H_0 = There is no significant difference in between Govt. employees and Private employees towards the motivating factor margin money.

An independent sample t test was performed to compare the motivating factors for Govt. employee and private employee. The outcome variable was found to be normally distributed and equal variance are assumed based on result of Levene's test ($F = .380, p = .543$) p value is not less than .05. There is no significant difference in motivating factor margin money for Govt. employee ($M = 4.4, S.D = .598$) and Private employees ($M = 4.4, S.D = .699$) $t = .000, p \text{ value} = 1.000$ it is not less than .05 so accept null hypothesis at 28 degree of freedom 95% confidence level.

2. H_0 = There is no significant difference in between Govt. employees and Private employees towards the motivating factor Rate of Interest.

An independent sample t test was performed to compare the motivating factors for Govt. employee and private employee. The outcome variable was found to be normally distributed and equal variance are assumed based on result of Levene's test ($F = .130, p = .722$) p value is not less than .05. There is no significant difference in motivating factor rate of interest for Govt. employee ($M = 3.8, S.D = .696$) and Private employees ($M = 3.7, S.D = .823$) $t = .349, p \text{ value} = .729$ (two tailed) it is not less than .05 so accept null hypothesis at 28 degree of freedom 95% confidence level.

3. H_0 = There is no significant difference in between Govt. employees and Private employees towards the motivating factor repayment mode.

An independent sample t test was performed to compare the motivating factors for Govt. employee and private employee. The outcome variable was found to be normally distributed and equal variance are assumed based on result of Levene's test ($F = .367, p = .550$) p value is not less than .05. There is no significant difference in motivating factor repayment mode for Govt. employee ($M = 4.2, S.D = .834$) and Private employees ($M = 3.7, S.D = .949$) $t = 1.48, p \text{ value} = .150$ (two tailed) it is not less than .05 so accept null hypothesis at 28 degree of freedom 95% confidence level.

4. H_0 = There is no significant difference in between Govt. employees and Private employees towards the motivating factor eligibility norms

An independent sample t test was performed to compare the motivating factors for Govt. employee and private employee. The outcome variable was found to be normally distributed and equal variance are assumed based on result of Levene's test ($F = .029, p = .867$) p value is not less than .05. There is no significant difference in motivating factor eligibility norms for Govt. employee ($M = 3.3, S.D = .865$) and Private employees ($M = 3.3, S.D = .949$) $t = .000, p \text{ value} = 1.00$ (two tailed) it is not less than .05 so accept null hypothesis at 28 degree of freedom with 95% confidence level.

5. H₀=There is no significant difference in between Govt.employees and Private employees towards the motivating factor requirement of documents.
An independent sample t test was performed to compare the motivating factors for Govt.employee and private employee.The outcome variable was found to be normally distributed and equal variance are assumed based on result of Levene's test (F=.478,p=.495).There is no significant difference in motivating factor eligibility norms for Govt. Employee (M=3.65,S.D=.813) and Private employees (M=3.6,S.D=.966) t=.149,p value=.882 (two tailed) it is not less than .05 so accept null hypothesis at 28 degree of freedom with 95% confidence level.
6. H₀=There is no significant difference in between Govt.employees and Private employees towards the motivating factor security requirement.
An independent sample t test was performed to compare the motivating factors for Govt.employee and private employee.The outcome variable was found to be normally distributed and equal variance are assumed based on result of Levene's test (F=.001,p=.982) .There is no significant difference in motivating factor security requirement for Govt. Employee (M=3.45,S.D=1.05) and Private employees(M=3.3,S.D=1.16) t=.356 ,p value=.724(two tailed) it is not less than .05 so accept null hypothesis at 28 degree of freedom with 95% confidence level.
7. H₀=There is no significant difference in between Govt.employees and Private employees towards the motivating factor easy accessibility.
An independent sample t test was performed to compare the motivating factors for Govt.employee and private employee.The outcome variable was found to be normally distributed and equal variance are assumed based on result of Levene's test (F=2.73,p=.110)p value is not less than .05 .There is no significant difference in motivating factor easy accessibility for Govt. employee(M=3.85,S.D=.671)and Private employees(M=3.7,S.D=.949) t=.502,p value=.619(two tailed) it is not less than .05 so accept null hypothesis at 28 degree of freedom with 95% confidence level.
8. H₀=There is no significant difference in between Govt.employees and Private employees towards the motivating factor courtesy treatment of staff.
An independent sample t test was performed to compare the motivating factors for Govt.employee and private employee.The outcome variable was found to be normally distributed and equal variance are assumed based on result of Levene's test (F=3.396,p=.076)p value is not less than .05 .There is no significant difference in motivating factor courtesy treatment of staff for Govt. employee(M=4,S.D=.649)and Private employees(M=3.7,S.D=.949) t=1.022 ,p value=.316(two tailed) it is not less than .05 so accept null hypothesis at 28 degree of freedom with 95% confidence level.

FINDINGS AND CONCLUSION:

Among the respondents 66.67% were Govt. employees 33.33% were Private employees.Margine money showed highest mean value so which was considered as the most influencing motivating factor to select a bank.Repayment mode was the another motivating factor with mean value 4.03.The study revealed that there is no significant difference in motivating factors for Govt employees and private employees to select a bank for home loan.

The Indian banking is well regulated and capitalised.The economic and financial conditions in the country make it more superior than any country in the world.The banks are trying to provide best customer services in processing and disbursing, rate of interst and payment. The study on the motivating factors to select a bank for home loan concluded taht all the factors influence the customers for selecting a bank but the most influencing factor is margin and repayment mode,the least motivating factors are eligibility norms and security requirements.Hence the banks which consider these factors can take advantage over others and can only sustain in the longer run.

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