Perception of Home Loan Borrowers: A Demographic Study

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Perception, Loan, Home Loan, etc.

Abstract
Owning one's own home is one of the defining elements of the Indian dream. But, only a few years ago, this part of the dream seemed to be fading away. After 50 years of continuous progress, homeownership has become achievable, and the Nation's home-ownership rate has risen. Making homeownership more attainable has become the goal of banking and non Banking Financial Institutions. A prerequisite for consumers to make good decisions is to have all the relevant information about the decision at hand. Decisions are taken on the basis of the perception individual has. Addressing this issue, the purpose of this study is to investigate what perception consumers have when they search for information, particularly when looking for a home loan. The study has made an attempt to find out the underlying factors of perception of Home Loan borrowers. Also the study has compared the difference in the perception among different age and income groups. The insights gained from this analysis will guide individuals to more effective ways to help consumers choose a home loan, and, will also act as a guide for Home loan providers to know on what basis perception is formed.

Introduction
Considerable work has been done on the issue of home loans in India as well as in other countries. The present research study of customers mainly focuses on the satisfaction and loyalty aspects. In this research we have shown the impact and role of 'perception' on home loan borrowers while getting funds from financial institutions and from banks. To make the analysis that much more worthwhile and meaningful we have also incorporated demographic factors to see how they impact the perception of home loan

borrowers. In the present era of increasing competition, this research will be useful for financial institutions i.e. banks and also for NBFCs (non banking financial corporations) which are important stakeholders in the business of home loans borrowers. With the help of the outcome of this research, they can design their marketing strategies, to grab a large untapped market of potential home loan borrowers. Also, the research will be helpful for FIs to study customer relationships as well as to improve customer relationship management between the borrowers and the financial institutions.

Objectives of the study

1. To develop and standardize a measure to evaluate customer perception towards Home Loans.
2. To compare the difference of perception in different age and income groups of home loan borrowers.

Conceptual frame work

Perception is the process by which individuals organize and interpret their sensory impressions in order to give meaning to their environment. Sensation, Absolute Threshold, Differential Threshold, Subliminal Perception are the elements of perception.

Loan

A loan is a type of debt. Like all debt instrument, it entails the redistribution of financial assets over time. This service is generally provided at a cost, referred to as interest on the debt, the temporary provision of money, usually at interest, (en.wikipedia.org/wiki/Loan). A loan can be both secured and unsecured. A "home loan" is a credit to a consumer for the purchase or transformation of the private immovable property he owns or aims to acquire secured either by a mortgage on immovable property or by a surety commonly used in a Member State for that purpose. (www.hypo.org/Content/Default.asp). Examples of different types of home loans are: basic or "no frills" loans, standard variable rate loans, fixed-rate loans, packaged home loans, no deposit loans, non-conforming loans etc.

Consumer decision-making models

By the late 1960s, three major comprehensive models of consumer decision making (Nicosa 1966; Engel, Kollat and Blackwell, 1968; and Howard and Sheth, 1969) had been developed that traced the psychological state of individual purchasers from the point at which they become aware of the possibility of satisfying a need with a product or service to their final evaluation of the consequences of making a purchase.

Review of literature

The incremental building process constructs much of the physical plant of many cities in developing countries. However, external resources and the formal financial sector rarely support the incremental building process. Without finance, the incremental building process often proves extremely inefficient and lengthy, and results in poor quality home construction and neighborhood environments. Usually, low/moderate-income home ownership starts with the acquisition of land through one of a variety of means including squatting or the purchase of a lot in an informal sub-division (Ferguson, 1996).Microfinance fits the incremental building process in critical ways. Most micro lending occurs for home improvement and expansion. The short term of microfinance also well suits these households' situation. Low/moderate-income families resist incurring financial obligations for the long periods typical of traditional mortgage finance (15 to 30 years) because of the instability of their income. Many low/moderate-income households do not want the burden of long-term payments even if they can qualify for a loan. Although commercial banks rarely make loans to low/moderate-income groups for housing, other financial institutions such as credit unions, and private sector entities such as building materials suppliers and land developers occasionally extend these loans. In Karachi, Pakistan, building contractors and building materials suppliers commonly provide credit to their customers (Hasan, 1989). In Barbados, few of suppliers hold large portfolios and have made financing a lucrative part of their business, with one company holding over 15,000 accounts for a total of US$7.5 million (Hoek-Smit et al. 1998). A similar evolution occurred for both the durable goods and housing sectors in the United States.

Credit analysis

Like micro enterprise lending, microfinance of housing requires that lenders cut costs to a minimum and reach scale to achieve financial sustainability. In particular, efficient underwriting methods can help loan officers maximize their customer portfolios. The most successful microfinance institutions have achieved dramatic success in boosting their ratios of loans per credit officer. Financiera Calpi increased this ratio by 22% over just three years. Many mortgage lenders in developing countries still have loan processors and officers who underwrite credits manually. However, the better housing microfinance originators have automated this process by entering information into computer models that assess households' ability and willingness to pay.

Technical assistance

Traditional mortgage finance in developing countries funds the purchase of complete, newly built standard units. These loans are easy to process and require little hands-on technical assistance. Because housing micro credit funds self-help home improvement and expansion as well as new or progressive construction of basic core units, it may require additional technical assistance. This technical assistance includes review and evaluation of home improvement plans and costs, title verification, construction monitoring, and the use of progressive payments based on construction inspections. Without this support, borrowers may exacerbate already precarious living conditions by failing to meet technical specifications or finish their project.

Depending on the country context, these owners may enjoy de facto or para-legal security virtually as great as those with full legal title. For example, In South Africa land tenure is such a problem that housing microfinance uses the only available collateral of low- income households, their pension funds, as security. SEWA (service) Bank in India does not require that its clients have land tenure, but does require that the asset be put in the name of the female borrower due to their higher repayment rates. Other institutions differentiate rates by security interest, charging lower rates for borrowers with a mortgage lien. In many contexts, however, perfecting title continues to be critical to giving households the security to invest in their homes. In these environments, housing micro credit programs typically include the cost of the process within the loan and, sometimes, assist households in the process. The overall experience of housing microfinance with repayment varies. Many programs have achieved rates comparable to best practice in micro enterprise finance and equal or above those of lending to middle and upper-income borrowers.

The research context

Till date many international and national researches have been done in the areas of Home loans. Studies related to attitude, satisfaction, trust and loyalty are there. If we talk about South Africa, there is a huge housing backlog in South Africa and access to formal housing finance is problematic for the majority of the population. Much criticism has been leveled against banks for their unwillingness to do business with the low-income group. The research done by Kahilu Kajimo-Shakantu and Kathy Evans, (2005) contributed to the understanding of why banks perceive in this way and by doing so they tried to explore the banks. Potential to be more involved in the provision of low-income housing finance, the research was approached from the Banks point of view. This study found that banks maintain that they are private business entities with their own guidelines and regulations and, whose main objective is to maximize returns for shareholders. The research found that banks are mainly providing large loan amounts repayable over relatively long periods of time, whereas the poor typically want smaller loans repayable over shorter periods (flexible).

Jeanne M. Hogarth and Marianne A. Hilgert, (2001) found that in 1995 lending by finance and loan companies grew 16%, from $886 million to $1.03 billion (in constant 2000 dollars).

Case and Schnare, (1994) evaluated HECM borrower characteristics, including the determinants of product choice, using a sample of approximately 2,500 loans. They calculated the probability of a borrower choosing each payment option as a function of age, family compo-situation, property value, property location, and other characteristics. Their findings included the following: 1) younger borrowers were more likely to elect tenure payments; 2) there was not a strong relationship between income and product choice; 3) single men were less likely than women or couples to choose the line-of-credit option; 4) borrowers with higher-valued properties were much less likely to choose the line-of-credit option; and 5) rural borrowers were more likely to choose the line-of-credit option than suburban or urban borrowers.

A recent study by Johnston and Pazarbasioglu, (1995) concluded that countries that had faced financial crises had failed to adjust real interest rates, prevent inflationary credit and monetary expansion, and had allowed greater inefficiencies in their banking systems. As far as India is concerned, it has recently started to integrate itself with the rest of the world. Therefore, its chances of getting affected by the developments in its neighborhood have increased considerably. But India survived the financial crisis for various reasons including the strength of its financial system and appropriate monetary policy decisions taken by the central bank. It is believed that the poor don't know how to manage the flows, (Rutherford 2000), which leads to problems. One should look at issues pertaining to savings and credit together as borrower.

As borrowers become aware of the reputations they build among lending institutions and how these reputations affect access to loans, they have increased incentives to repay, thus further improving the pool of borrowers and lowering lending costs (Vercammen 1995). The results of a survey conducted by Pillay and Naude (2005) in South Africa, show that whether it is the bank refusing, or people not applying for a loan or changing their minds about applying after approaching the bank, the formal loan system is not functioning as it should and hence is a real obstacle to the low-income group getting homes. Because the supply and demand for housing finance are so isolated from each other, a substantial number of would-be borrowers in the low-income sector are excluded, (Smit, 2003).Yet, these represent a huge untapped market where banks potentially have the opportunity to develop more affordable financial packages.

Many of the previous studies on high-rate and sub-prime loans have focused on the industry side of the equation by assessing the risk premium and profitability of these loans e.g., Avery, Bostic, Calem & Canner, (1996); Canner, Passmore & Surette, (1996). The studies of consumer mortgage choices have not separated prime and sub prime markets Gabriel & Rosenthal, (1991); Linneman & Wachter, (1989); Zorn, (1993).

The Indian scenario

India has one of the most extensive financial systems comprising of banks, microfinance institutions and self-help groups. There are more than 30,775 rural branches of commercial and regional rural banks. Rural cooperative institutions have a wider outreach, with 1, 08,779 primary agricultural co-operative societies (PACS). In addition, 2.24 million self-help groups (SHGs), with the credit linkages by banks are also operating in India. Furthermore, the number of Kisan Credit Card (KCCs) holders (Basu 2006) has increased to 59.09 million (RBI report 2006) Indeed, India compares favorably with other developing countries both in terms of the geographical area covered as well as average population served per bank branch (Basu 2006).

While the growth and coverage of formal financial services in rural India may seem remarkable, the vast majority of rural poor still does not have access to formal finance. This lack of access to formal credit and savings services jeopardizes India's efforts to both poverty reduction as well as wealth creation necessary to propel the nation towards ecological, social and economic well being. This is so because the financial sector in India has failed to craft management innovations that build on the strength of the informal money lending. No wonder then, nearly 45% of the rural lending in India is by money lenders and the trend is actually on the rise (Vaidyanathan, A. 2006).

The economic expansion of the 1990s expanded activity in all sectors of the residential mortgage market. These years also witnessed a burgeoning number of loans made through the sub prime mortgage market. The economic expansion of the 1990s expanded activity in all sectors of the residential mortgage market. Existing homeowners increased their demand for funds, primarily for refinancing or as home equity loans. New entrants sought mortgages for home purchases. As this demand for home financing increased, the mortgage lending market also changed. During these years there occurred increased concern in the growth of the sub prime or so-called predatory lending component of the mortgage market.

After nationalization, banks were provided specific mandates, particularly regarding the obligations of lending to various specified sectors. The different problems that afflicted the Indian banking sectors in particular were predominantly a result of decades of "directed credit" policies of Indian governments. During much of the second half of the twentieth century, the Indian banking sector had characteristics of social control. The supposed role that banking sector played in the economy was that of providing financial support for preferred sectors which would lead to the development of the country. However, because of inefficient lending practices, combined with poor monitoring, corruption, and a host of other factors, the Indian banking sector became saddled with huge folios of non-performing loans. In order to clean up its banking system, the Indian government has embarked upon major regulatory reform in the last decade. Most recently, the Indian government has allowed Banks and Financial Institutions to securitize non-performing assets. This led to an unprecedented increase in the share of priority sector lending, and had some positive impact on the economic development.

Empirical Testing

The study was exploratory in nature. A self-designed questionnaire was used for collecting primary data. In this study researchers have prepared 3*3 factorial designs. Total population was all the individuals seeking to take a loan. The Sample Frame was of all the home loan takers in Gwalior region. Sample size was 160 respondents. Individual respondents who have taken home loans acted as an element. A non-probability purpose sampling technique was used. The self-made questionnaire was used to solicit responses from the respondents on a scale of 1 to 5 where 1 indicates minimum agreement and 5 indicate maximum agreement.

Tools used for data analysis

- Item to total Correlation was used for checking the consistency of the questionnaire.
- Reliability test was used for checking the reliability of the Questionnaire, through Cronbach alpha.
- Factor analysis was applied to generate the underlined factors of the perception of home loan borrowers.
- T-test was used for finding the significance difference in the perception of different age and income groups.

Consistency measure

First of all consistency of all the questionnaires was checked through item to total correlation. Under this correlation of every item with total was measured and the computed value is compared with standard value (i.e.0.1540). Computed value is found less than standard value than whole factor / statement is dropped and was termed as inconsistent. Out of 29 statements, only one statement was inconsistent.

Reliability measure

Reliability test was carried out using SPSS software and the reliability test measures are given below. Cronbach Alpha, 0.824. It is considered that the reliability value more than 0.7 is good and it can be seen that in almost all the reliability methods applied has, reliability value is quite higher than the standard value, so the scale is highly reliable.

Validity tests & factor analysis

Validity of the questionnaire was checked through face validity method and was found to be high. Principle component factor analysis with Varimax rotation and Kiser normalization was applied.

Comparison of samples

T-Test Result and Hypothesis Testing

Different hypothesis were formed and t test was applied to check the difference in perception of home loan borrowers of different age & income groups and within different age and income groups. The results obtained are summarized in the table. Ex of hypothesis formulated:-

Hypothesis 1: Perception of Respondents of Age group 21-30 with Income <2 00000 and Age group 21-30 with Income 2-5 00000 towards Home Loan.

Ho: There is no difference in the perception of Respondents of Age group 21-30 with Income <2 000000 and Age group 21-30 with Income 2-5 000000 towards Home Loan.

Ha: There is a difference in the perception of Respondents of Age group 21-30 with Income <2 000000 and Age group 21-30 with Income 2-5 000000 towards Home Loan.

In similar way different hypothesis were formulated for different age and income groups. (Table 1&2)

Summary of results

Eight factors the affects the perception of home loan borrowers are Cost, procedure, Behavior of Employees, Loan is Equal to what Applied, Customer Satisfaction, ease of Conversation, Pre and Post Sale.

T-Test Result & Hypothesis

The results of t-test between different age and income groups and the hypothesis formulated. The results obtained are summarized in two parts.

- With each age group (21-30, 31-40, 41-50) when compared with each income group(less the 2 000000, 2-5, 5 &above) the perception of home loan borrower are found to be significantly different.

- On comparing the perception of home loan borrowers of within different age groups i.e. (21-30, 31-40&31-40, 41-50&21-30) the home loan borrowers perception was significantly different.
- On comparing the perception of home loan borrowers of within different Income groups i.e.(less than 2 000000,2-5,5 &above) the home loan borrowers perception was significantly different .

Part III (table 2 results)

In this part of the study we have compared the perception of same age group with different income group for example(21-30&less than 2 000000,21-30&2-5 000000) The result shows that in most of the groups the perception of home loan borrowers were different. But the results of T-test of four groups are Insignificant (shown in bold) and it means there is no difference in perception of these home loan borrowers. Especially borrowers belonging to the age group of 31-40 have no difference in perception with other age and income groups.

Conclusion

This study has resulted in developing a standardized measure to evaluate the effect of demographic variables on perception of home loan borrowers sourced (ICICI Home Loan, CITI FINANCIAL Home Loan, HDFC BANK, IDBI BANK, SBI Home Loan). It elucidated that the home loan borrower's perception vary according to their age and income group. In the result, the study shows Home loan borrower of different age group and income group has significant difference in their perception with exception of 31-40 age group. The reasons of difference in perception may be due to the varying income, responsibility level, professional stability, risk taking capacity in these groups. 21-30 age group persons want to be successful in the future and with disposable income and little responsibilities they can buy a fixed home facility for themselves. The person who belongs to the age group of 41-50 has many responsibilities. The retirement stage for this group is near. So being in job they plan to take loan so that they can repay it during their service tenure. Also they think for the safety and security for their children's. In comparison to other groups (31-40), they don't have much disposable income to afford monthly installments as they have other areas of expenditures too (family), that's why insignificant difference in perception is observed with income. The another reasons for this age group can be life moves into the fast lane & everyone wants to settled down, acquiring assets becomes dead important .Everybody wants to take loans to move into that dream home. Hence no generalization can be made for the similarity of the perception in the age and income groups.

Limitations

The study is useful for financial institutions because no such studies have been carried out to check the home loan borrowers' perceptions demographically. Although the sample size here is on the smaller side, the results are interesting and good pointers to crafting strategies. As always there is scope for more research in the area under investigation.

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Links

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Annexure

Table 1-summary

	21-30yrs	31-40yrs	41-50yrs	<2000000	2-5000000	>5 000000
21-30yrs		15.65	27.74	13.50	4.07	9.62
31-40yrs			43.39	**2.14**	11.57	25.27
41-50yrs				41.25	31.82	18.12
<2 lakhs					9.85	23.13

2-5lakhs						13.69
> 5lakhs						

Table-2-summary

	21-30 to 2 000000	21-30 to 2-5 000000	21-30 to 5000000	31-40 t0 2000000	31-40 to 2-5 000000	31-40 to 5000000	41-50 to 2 000000	41-50 to 2-5 000000	41-50 to 5000000
21-30 to 2 000000		2.76	25.34	2.74	3.50	13.3	**2.52**	16.96	12.97
21-30 to 2-5 000000			27.45	18.44	**0.58**	18.93	**0.47**	16.38	11.02
21-30 to 5000000				37.80	18.77	38.29	18.88	35.74	8.33
31-40 to 2 000000					19.02	**0.48**	18.92	2.05	29.47
31-40 to 2-5 000000						19.51	**0.10**	16.97	10.44
31-40 to 000000							19.41	**2.54**	29.96
41-50 to 2 000000								16.86	10.54
41-50 to 2-5 000000									27.41
41-50 to 5000000									