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**Factors Affecting Decision of Borrowers Towards Home Loan**

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**ABSTRACT**

*Home is one of the essential human necessities. Home loan plays a crucial role in purchase of house for middle class people. Now-a-days various marketers have attempted to influence consumers by adopting attractive marketing strategies. Although in recent years development has experienced in home loan but some research shows the decrease in interest of consumers towards housing loan now a days. It may create problems for providers in near future. The purpose of this study is to identify the factors which affect the behavior of borrowers towards home loan. After applying factor analysis, four factors have been identified which majorly affect the behavior of borrowers. This study is useful for institutions providing housing loan services, people who are in need of home loan as well as government and society.*

**Keywords:** Home Loan, Borrowers, Behaviour, Government, Society

**INTRODUCTION**

Being of the family and individual (Ghose et al., 1987), house can be said to be a store of riches and in this manner can be utilized as an advantage by its proprietor. For a great many people, buying a house is the greatest money related choice they will ever make. What's more, with homes frequently costing many thousands and now and again millions of dollars, a great many people can't stand to pay money for the whole property in advance. Accordingly, they have to take out a home advance (for example acquire) from a bank, credit association, or particular home loan moneylender for borrowers with lower spending plans.

Post-independence, India has mainly focused on agricultural development and industrial unrest. The main focus has been on shifting of rural population to urban areas. Claiming a house is a big dream for a person. Nonetheless, majority of population does not have sufficient funds. Housing finance is a bridge between this dream and required funds. Home loan is a relatively new concept in India as compared to other financial services prevailing in the country. In India, the demand for housing has increased in recent years due to increase in population, breakdown of joint family concept, and migration of rural population to urban areas.

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Further impetus to housing demand has been given by growth in technology. India is a vast country and is highly populated next only to china. It is home to 1.3 billion people of the world.

Since independence, much attention has not been given to housing sector in the country. It was mainly viewed as individual activity that does not require state intervention. Till 1970, government focussed on providing housing facility to its employees and low income industrial workers at subsidized rates. Since 1970, housing sector came to be seen as an important factor for economic growth because of its impact on employment, labour productivity, savings and investment.

Genuine boom in the housing market was observed in 1970s and 1980s after urbanization took its pace. At that point the shortage of houses for even rent purposes. Legislature of India set up a national commission on urbanization to overcome the critical problem of housing in urban areas. National commission on urbanization gave its recommendations to the government of India and on the basis of these recommendations national housing policy 1990 was adopted. This policy emphasized on the role of government in urban housing and need of private sector involvement.

Now consumers are frequently given countless options by banking and other financial institutions for financing of home loan. But borrowers' decisions are continually changing because of innovations, serious pressures and a lot of data accessible from numerous sources. The advertisements lead to impact on each of these choices through their promoting improvements/methodologies that may shape the borrowers' assessment procedure. Most definitely, high association of the borrower could be seen. The offer is exceptionally evaluated however practically all banks give the equivalent highlights. Now and then this may include the post buy less harmony as well. It is all around reported that the decision making procedure follows various stages, despite the fact that there has been a little agreement on the quantity of stages and individual experiences before settling on last decision.

## **REVIEW OF LITERATURE**

Rao (2013) examined about the recognition and issues of home advance takers in Andhra Pradesh. The creator has concentrated on inquire about by considering HDFC and SBI bank. The paper examined about the Housing Policy outline work, patterns and progress in Housing Finance, the operational exhibition of HDFC and SBI as to giving lodging account to people, recognition and issues of home advance takers in the State of Andhra Pradesh. The researcher finished up by expressing that the Housing Finance in India confronted various set-backs in decades yet the planning of a reservation strategy, the suggestion of the housing loan agents, the presentation of financial service providers have brought changes in the housing loan.

Tiwari and Parikh (2010) talked about the designing housing policies and programmes require a careful estimation of household affordability and demand for housing. The efficiency of housing subsidies would depend on price elasticity of

housing demand. Different households have different perceptions of housing demand based on their economic and demographic factors. The results indicate that the housing demand is inelastic with respect to income and price. Kumaraswami and Nayan (2014) researched various factors that influence the decision of the consumer for taking Home Loan. The paper focuses on the Home loan offered by LIC and SBI and makes a comparative analysis of the factors that affect the consumers. The paper has a practical implication both for the academicians and for the readers in terms of their concern with the aspect issues regarding factors influencing the buyer behaviour towards Home loans.

Hingorani and Tiwari (2009) assessed the present issues and difficulties in the Indian urban lodging market and gave recommendations for instruments and approaches that can direct development towards a progressively comprehensive methodology. Sridharan (2014) indicated that in spite of the fact that there are different activities from Government of India like World Bank, the International Finance Corporation (IFC), there still exists a test at the ground level which is the basic accessibility or creation of moderate lodging ventures. Patel (1996) clarified that home loan has been a basic piece of banks need segment loaning. Each nationalized banks is required to allot a particular level of stores for lodging fund each year i.e. to give lodging money to more vulnerable areas of society under the twenty point program. For giving arranged and orderly lodging account to clients, numerous banks have built up their own lodging money backups.

Gudadhe (2013) researched that housing finance institution today depends substantially on resources from the banking system, without making any major effort to diversify the spectrum of resources raised. In this context, the financial structure of these institutions tends to get further skewed, with a dependence on wholesale resource for on-lending to retail customer base levels. 99.27% clients communicated their fulfillment towards the administrations. Mittal (2014) examined about the segment profile of the clients and their decision of a specific kind of bank. It was a huge distinction between the age-wise, training insightful and occupation-wise dispersion of the two types of banks. The salary of the clients and their decision of a specific sort of bank were free from one another. Gupta and Jain (2012) focused on the different practices adopted by Cooperatives banks in (Delhi) India. The customers have taken more than one type of loan from the bank. The researcher recommended that bank must have to adopt the latest technology of banking to cope up with the private sector competition. The study identified that 32% of the respondent were having housing loan from the bank under investigation. Ghosh (2012) in his study mainly focused on the guidelines followed by commercial banks in India regarding the appraisal process of housing loans with specific reference to Indian Overseas Bank.

Munjee (1990) contended that progress of housing development in India largely depends upon institutional process of housing that began in 1970s. Talaga and Buch (1998) concentrated on how purchasers of home loan instruments make change

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among various instruments. The investigation focused on five factors: number of focuses, notoriety of bank, sort of home loan, extra expenses and term of home loan, though the financing cost was controlled variable.

Sangwan & Bhan (2012) evaluated the house loan schemes of PNB, UBI, HDFC and ICICI and studied the customer's response regarding housing loans and their level of satisfaction and problems faced by them while dealing with the bank. It was seen that all banks offered loan on fixed interest rate to individuals for whom equitable mortgage and guarantee were security with repayment period of 20 years long time except for PNB that had repayment period of 25 years.

Frangos et al. (2012) studied the factors affecting decision to choose a bank for loan among Greek citizens. The survey was carried out by administering questionnaires to citizens of Athens. Using factor analysis, variables like satisfaction, interest rates, insurances/guarantees, installments, general loan factors, service quality, and shop design and customer service were selected. It was then observed that interest rate followed by service quality factors are significant variables affecting loan taking decision.

## **OBJECTIVE**

1. To identify the dimensions affecting the decision of borrowers towards home loan.

## **RESEARCH METHOD**

The research design used for carrying out this study is descriptive research because the report deals with statistical data and the main objective is to find out the various dimensions which lead to change in the behaviour of borrowers towards home loan. Purposive sampling technique was used for the study. Data was collected from 100 interested forthcoming borrowers of home loan. Major cities of the Madhya Pradesh were the area of the study. The interested borrowers of home loan were sampling unit. Primary data for the study was collected through self-structured questionnaire. Mean and factor analysis were used for further analysis of data.

## **RESULTS AND ANALYSIS**

### **Analysis of demographic variables:**

#### **Analysis of Gender**

| Gender |        | Frequency | Percent | Valid Percent | Cumulative<br>Percent |
|--------|--------|-----------|---------|---------------|-----------------------|
| Valid  | Male   | 61        | 61.0    | 61.0          | 61.0                  |
|        | Female | 39        | 39.0    | 39.0          | 100.0                 |
|        | Total  | 100       | 100.0   | 100.0         |                       |

The above table shows that 61% respondents belong to the category of male consumer and 39% of respondents belong to the category of female consumers.

#### **Analysis of Age**

| Age         | Frequency | Percent | Valid Percent | Cumulative<br>Percent |
|-------------|-----------|---------|---------------|-----------------------|
| Above 20    | 34        | 34.0    | 34.0          | 34.0                  |
| 31-40       | 26        | 26.0    | 26.0          | 60.0                  |
| Valid 41-50 | 30        | 30.0    | 30.0          | 90.0                  |
| 51-60       | 10        | 10.0    | 10.0          | 100.0                 |
| Total       | 100       | 100.0   | 100.0         |                       |

Above table shows the age group of consumers, there are 34% respondents who belong to the age group of 20-30 years, whereas there are 26% people who belong to the age group of 31-40 years, and there are 30% people who belong to the age group of 41- 50 years and rest of the 10% people belong to the age group of 51-60 years.

#### **Analysis of Annual Income (In Rupees)**

| Annual income       | Frequency | Percent | Valid Percent | Cumulative<br>Percent |
|---------------------|-----------|---------|---------------|-----------------------|
| 10,000-20,000       | 24        | 24.0    | 24.0          | 24.0                  |
| 20,000-30,000       | 18        | 18.0    | 18.0          | 42.0                  |
| Valid 30,000-40,000 | 26        | 26.0    | 26.0          | 68.0                  |
| 40,000-50,000       | 32        | 32.0    | 32.0          | 100.0                 |
| Total               | 100       | 100.0   | 100.0         |                       |

The above table shows the annual income of the respondents. 24% respondents have income 10,000-20,000. 18% respondents are having annual income 20,000-30,000. 26% respondents have income 30,000-40,000 and 32% respondents have income 40,000-50,000.

#### **Reliability Test**

Cronbach's alpha is a measure of internal consistency, that is, how closely related a set of items are as a group. It is considered to be a measure of scale reliability. A "high" value for alpha does not imply that the measure is unidimensional.

#### **Reliability Statistics**

| Cronbach's<br>Alpha | N of Items |
|---------------------|------------|
| .900                | 16         |

**Analysis of objective 1 by using Factor analysis:**

Objective 1: To study factors affecting the behaviour of home loan borrowers.

**KMO and Bartlett's Test**

|  |    |         |
|--|----|---------|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. |    | .850    |
| Approx. Chi-Square                               |    | 652.434 |
| Bartlett's Test of Sphericity                    | df | 120     |
| Sig.   |    | .000    |

Findings: the factors (factor loadings for each of 16 sub-factors), for satisfactory factor analysis KMO value should be bigger than 0.5. Above table displays value of KMO test was 0.850 hence it shows that data is reliable for applying factor analysis.

**Communalities**

|          | Initial | Extraction |
|----------|---------|------------|
| VAR00001 | 1.000   | .673       |
| VAR00002 | 1.000   | .697       |
| VAR00003 | 1.000   | .626       |
| VAR00004 | 1.000   | .514       |
| VAR00005 | 1.000   | .729       |
| VAR00006 | 1.000   | .553       |
| VAR00007 | 1.000   | .508       |
| VAR00008 | 1.000   | .743       |
| VAR00009 | 1.000   | .658       |
| VAR00010 | 1.000   | .512       |
| VAR00011 | 1.000   | .478       |
| VAR00012 | 1.000   | .758       |
| VAR00013 | 1.000   | .514       |
| VAR00014 | 1.000   | .522       |
| VAR00015 | 1.000   | .618       |
| VAR00016 | 1.000   | .738       |

Extraction Method: Principal Component Analysis.

In this table it was found that component values of the variables on the basis of which we have found that there are factors which affect the most of buyers of home loan of Indore. These values are used in factor load table which is drawn below. The value which is highest in the row will be a load value of the variable and used in the factor which it belongs to

**Total Variance Explained**

| Component | Initial Eigenvalues |               |              | Extraction Sums of Squared Loadings |               |              | Rotation Sums of Squared Loadings |               |              |
|-----------|---------------------|---------------|--------------|-------------------------------------|---------------|--------------|-----------------------------------|---------------|--------------|
|           | Total               | % of Variance | Cumulative % | Total                               | % of Variance | Cumulative % | Total                             | % of Variance | Cumulative % |
| 1         | 6.440               | 40.252        | 40.252       | 6.440                               | 40.252        | 40.252       | 2.536                             | 15.847        | 15.847       |
| 2         | 1.342               | 8.387         | 48.639       | 1.342                               | 8.387         | 48.639       | 2.512                             | 15.702        | 31.549       |
| 3         | 1.055               | 6.593         | 55.232       | 1.055                               | 6.593         | 55.232       | 2.482                             | 15.509        | 47.058       |
| 4         | 1.003               | 6.271         | 61.504       | 1.003                               | 6.271         | 61.504       | 2.311                             | 14.445        | 61.504       |
| 5         | .965                | 6.031         | 67.534       |                                     |               |              |                                   |               |              |
| 6         | .844                | 5.277         | 72.811       |                                     |               |              |                                   |               |              |
| 7         | .790                | 4.940         | 77.751       |                                     |               |              |                                   |               |              |
| 8         | .563                | 3.517         | 81.268       |                                     |               |              |                                   |               |              |
| 9         | .547                | 3.416         | 84.684       |                                     |               |              |                                   |               |              |
| 10        | .479                | 2.994         | 87.679       |                                     |               |              |                                   |               |              |
| 11        | .451                | 2.816         | 90.494       |                                     |               |              |                                   |               |              |
| 12        | .397                | 2.482         | 92.976       |                                     |               |              |                                   |               |              |
| 13        | .343                | 2.144         | 95.121       |                                     |               |              |                                   |               |              |
| 14        | .297                | 1.856         | 96.977       |                                     |               |              |                                   |               |              |
| 15        | .291                | 1.822         | 98.798       |                                     |               |              |                                   |               |              |
| 16        | .192                | 1.202         | 100.000      |                                     |               |              |                                   |               |              |

Extraction Method: Principal Component Analysis.

**Table 7.3.2 Rotated Component Matrix**

|   | Component |      |      |      |
|---|-----------|------|------|------|
|   | 1         | 2    | 3    | 4    |
| Number of dependents on me affects my decision of home loan                   | .811      | .204 | .217 | .105 |
| Having a loan is a stressful feeling for me                                   | .768      | .201 | .087 | .317 |
| Burden of documentation affects my decision of home loan                      | .589      | .248 | .206 | .161 |
| Higher EMI affects my decision of home loan                                   | .557      | .106 | .404 | .262 |
| Flexibility in service affects my decision of home loan                       | .229      | .801 | .186 | .027 |
| Banking scam affects my decision of home loan                                 | .329      | .702 | .096 | .090 |
| Lack of awareness of different type of loans affects my decision of home loan | .045      | .598 | .323 | .220 |
| Longer repayment period affects my decision of home loan                      | .192      | .527 | .112 | .432 |
| Other loan payment affects my decision of home loan                           | .200      | .152 | .820 | .087 |
| Rigorous and time consuming process affects my decision of home loan          | .138      | .404 | .687 | .058 |
| Financial instability of bank affects my decision of home loan                | .250      | .011 | .571 | .346 |
| Fear of not being able to repay the loan affects my decision of home loan     | .176      | .280 | .536 | .342 |
| Credit score affects my decision of home loan                                 | .402      | .400 | .446 | .040 |
| Job instability affects my decision of home loan                              | .167      | .050 | .159 | .786 |
| Frequent job transfer affects my decision of home loan                        | .290      | .081 | .082 | .774 |
| Frequent change in job affects my decision of home loan                       | .069      | .393 | .266 | .629 |

## INTERPRETATION

**F1: Tensity:** It is the most important factor and it consists of 4 important variables. It contains 15.847% of variance which shows that all the variables are related to each other. It shows that all the related factors are having tensity.



**F2: Security and flexibility:** is another factor and it consists of 4 important variables. It contains around 15.702% of variance. It shows that all the 4 variables are flexible.

**F3: Creditworthiness:** is another factor and it consists of 5 variables. It contains 15.509% of variance. It shows that all the 5 variables are related to creditworthiness.

**F4: Job volatility:** is another factor and it consists of 3 variables. It contains about 14.445% of variance. It shows that all the 3 variables are related with job instability

## **DISCUSSION**

This study is conducted to identify the dimensions affecting changing behavior of borrowers towards home loan. Four dimensions were identified from findings named Tensity, Security and Flexibility, Credit Worthiness and Job Volatility. Results of the study were matched with survey conducted by Narwal, M., Rani, S. & Radhika (2013). Researchers found that customer behaviour for home loans is affected by customers' friendly environment, flexibility in processing and disbursing, rate of interest, payment terms and conditions, and freebies offered by the banks. Gunay, Gulay & Savas, Burcu & Gunes, Hidayet & Bener, Ozgun (2014) studied that demographic characteristic (education, income and job), and attitudes towards home loans and financial management behaviour were important predictors of consumers' behaviour and knowledge towards using home loans.

## **CONCLUSION**

A home loan is a long term commitment of 15-20 years. Home loan is the amount of money which is borrowed by an individual, usually from banks or financial institutions or companies that lend money. The borrower has to pay back the amount of loan with interest in Easy Monthly Installments (EMI) over a period of time that can vary between 10-30 years depending on the nature of the loan. In current scenario, there are many factors which are changing the behaviour of the buyers towards Home Loan. The research was conducted on 100 respondents of major cities of Madhya Pradesh. In this research four factors have been identified which are Tensity, Security and Flexibility, Credit Worthiness and Job Volatility which affect the decision of the borrowers towards home loan.

## **SUGGESTIONS**

- The bank should reduce the paper work and lengthy procedure for the borrowers who are interested in taking home loan.
- The financial institutions should train their home loan portfolio officers, so that they can provide proper guidance to bonafide customers
- There is more housing shortage in rural and semi-urban areas; the institution should give some special incentives to rural and semi-urban areas for housing loan.
- The government should have approved more foreign investment in the field

of housing sector. It will increase efficiency, productivity and transfer of technology to upgrade housing techniques.

- It is advisable to the borrower to invest at least 30%-35% in the house from their own savings; it will help in avoiding the heavy burden of loan repayment in long run.

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