

# A STUDY ON FACTORS INFLUENCING CUSTOMER CREDIT IN PURCHASING HOME WITH SPECIAL REFERENCE TO MADURAI CITY IN TAMIL NADU

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## ABSTRACT

*It was very commonly known that housing has played an important role in human life. The present study analyses the influencing factors of banks towards granting housing loans to customers. The present research categorizes three factors that affect consumer credit. These factors encompass those of the loan elements (Education loan, Personal loan, Vehicle loan, Home loan) and focused on Consumer credit base towards purchase housing. For this 200 respondents were taken as sample for the study in order to get the needed information. The study is of both analytical type and descriptive type with convenient sampling is used.*

**Keywords:** Consumer credit and Housing loans.

## INTRODUCTION

The dream of buying one's own home is not an impossible task in India- thanks to the burgeoning housing finance market in the country. Growths of home loans are due to increase of living standards of people, shifting from joint family to nuclear family. Consumer loan is when a person borrows money from a lender, either unsecured or secured. There are several types of consumer loans and some of the most popular ones include mortgages, refinances, home equity lines of credit, credit cards, auto loans, student loans, and personal loans. Homeowners may borrow against the equity they've built up in their residence using a home-equity loan. In other words, the homeowner is borrowing against the value of his or her home. A good method of determining the amount of home equity available for a loan would be to take the difference between the home's market value and the amount still owing on the mortgage. The loan proceeds may be used for any number of reasons, but are typically used to build additions or for debt consolidation. The interest rates on home-equity loans are very reasonable as well. In addition, the terms of these loans typically range from 15 to 20 years, making them particularly attractive for those looking to borrow large amounts of money. But perhaps the most attractive feature of the home-equity loan is that the interest is usually tax deductible.

The downside to these loans is that consumers can easily get in over their heads by mortgaging their homes to the hilt. Furthermore, home-equity loans are particularly dangerous in situations where only one family member is the breadwinner and the family's ability to keep up payments might be hindered by that person's death or disability. In situations like these, life/disability insurance is frequently used to help protect against the possibility of default.

Consumer is borrowing against his or her home's equity. However, unlike traditional home-equity loans, these lines of credit are revolving, meaning that the consumer may borrow a lump sum, repay a portion of the loan, and then borrow again. It's kind of like a credit card that has a credit limit based on your home's equity. These loans may be

tax deductible and are typically repayable over a period of 10 to 20 years, making them attractive for larger projects. Because specific amounts may be borrowed at different points in time, the interest rate charged is typically pegged to some underlying index such as the prime rate; this is both good and bad in the sense that at some times, the interest rates being charged may be quite low.

However, during a period of rising rates, the interest charges on outstanding balances go up too.

### OBJECTIVES OF STUDY

- a) To study the customer credit and bank policies and procedures in processing housing loan.
- b) To analyze the ability of the Bank in approving customer credit and collecting its loan on their due date.
- c) To study on factors influencing the purchase of housing.

### REVIEW OF LITERATURE

Naveen and Veerashekharappa (2009) studied the significance of microfinance in achieving money related incorporation. The paper concentrates on effect of the expanding hole sought after and supply of money related administrations in India which has prompted the expanding populace of the nation to be avoided from the formal budgetary credit framework on housing advance.

Kerry (2008) broke down, amid the period 1998-2008, there was a sharp ascent and afterward there was a surprising I drop in the home costs. Financial basics were the fundamental purposes behind these adjustments in home costs. Thusly the issue was not a result of subprime loaning, but rather emotional diminishments in the Fed, a short time later amid the early mid-2000 there was an expansion in the rates of premium; the development of housing was engaged in the business sectors where there were critical supply-side limitations, that able to be more value unpredictable. Likewise the issues lay in light of expansion and decline of certain home loan items, instead of credit lack.

Ghosh (2012) in his study mainly focused on the guidelines followed by commercial banks in India regarding the appraisal process of housing loans. Hingorani P. and Tiwari P. in the paper evaluated the present issues and challenges in the Indian urban housing market and gave suggestions for tools and approaches that can guide movement towards a more holistic approach.

Mishra (2011) discussed about the overall resources invested by housing finance company in India since their incorporation and identified the area where efficiency can be improved and cost reduction is possible for optimum and effective utilization of resources.

Sridharan (2014) in the paper made an analysis of the Indian demographics and how, correspondingly, the housing finance sector has evolved. According to the author “*Although there are various Government of India initiatives as well as schemes of institutions like World Bank and its members like the International Finance Corporation (IFC), there still exists a challenge at the ground level: the simple availability or production of affordable housing projects.*”

### RESEARCH METHODOLOGY

For the purpose of the study primary data was collected by distributing questionnaires containing 35 questions to the respondents. This empirical study has been conducted to analyze the customer impulse towards housing loan circle area on Madurai City. The convenience sampling has been used for data collection. The sample includes responses from 200 respondents. The study was based on Primary and Secondary data. Questionnaire has

been designed with the help of previously validated study and personally administered. Five point Likert's scale is used for measurement. The Secondary data was collected from books and journals. Demographic Characteristics and Factor analysis and cluster analysis was used to test the relationship between Consumer Credit and purchase housing (Table 1).

## ANALYSIS AND INTERPRETATION

<b>Demographic characteristics</b>	<b>Category</b>	<b>Frequency</b>	<b>Percent</b>
	Below 30	35	17.5
Age (years)	30-40	54	27.0
	40-50	75	37.5
	Above 50	36	18.0
	Total	200	100
Gender	Male	137	68.5
	Female	63	31.5
	Total	200	100
Degree	Upto 10+2	8	4.0
	Graduation	49	24.5
	PG	112	56.0
	Professional	31	15.5
	Total	200	100
Income (Rs. per month)	<20000	24	12.0
	20000-30000	51	25.5
	30000-40000	92	46.0
	40000-50000	22	11.0
	>50000	11	5.5
	Total	200	100
Occupation	Business class	39	19.5
	Govt. Job	53	26.5
	Private Job	108	54.0
	Total	200	100

Source: Inference Data

### Gender-Wise Distribution of Respondents

It is observed from the above table that the total sample of respondents taken for study constitute 111 male respondents (about 65.3 per cent) and 59 female respondents (about 34.7 per cent). It is apparent from the table that more number of male was chosen for study.

### Age-Wise Distribution of Respondents

It is observed from the above table that the total sample of 200 respondents taken for study constitute 30 respondents (17.5 per cent) belonging to the age group of Below 30 years, 54 respondents (about 27.0 per cent) belonging to the age group of 30-40 years and the remaining 36 respondents (about 18.0 per cent) are above 50 years of age.

### Degree-Wise Distribution of Respondents

It is observed from the above table that the total sample of 200 respondents taken for study , 8 respondents (4.0 per cent) are studying UG degree and the rest 49 students (24.5 per cent) are studying PG degree, 31 respondent (15.5 percent) are studying

professional.

### Occupation Details Distribution of Respondents

It is observed from the above table that the total sample of 200 respondents taken for study constitute 39 respondents ( 19.5 per cent) belonging to the business , 53 respondents (26.5 per cent) belonging to the occupation details of government job and the remaining 108 respondents (54.0 per cent) belonging to the Employment details of private.

### Monthly Income Distribution of Respondents

It is observed from the above table that the total sample of 200 respondents taken for study constitute 24 respondents (12.0 per cent) belonging to the monthly income up to 20,000, 51 respondents (25.5 per cent) belonging to the monthly income 20,000- 30,000 and the remaining 92 respondents (46.0 per cent) are 30,000-40,000 of monthly income, 22 respondents (5.3 per cent) belonging monthly income above 50,000 (Table 2).

<b>Paragraph</b>	<b>arithmetic mean</b>	<b>Standard deviation</b>	<b>Approval rate</b>
1. The customer's reputation taken into consideration when granting the loan.	4.53	0.689	90.63
2. The customer credit history is studied when granting the loan.	4.42	0.586	88.44
3. Financial customers should be suitable.	4.39	0.553	87.81
4. The diversity of the client activities taken into account when granting the loan.	4.11	0.669	82.19
5. The size of the market share of the client are taken into account when granting the loan.	4.11	0.693	82.19
6. Customers Offers sufficient information and data to the bank.	4.02	0.917	80.31
7. Credit facilities are requested by customers to repay loans due to other banks.	3.73	1.087	74.69
8. Economic feasibility studies are prepared for Projects to be financed.	3.68	1.175	73.65
9. There is no forcing for the client of the way to use the loan.	3.48	1.127	69.69
10. Loan funds are used usually as agreed at the time applied for the loan.	3.41	1.065	68.13
11. Customers have the awareness of administrative and technical enough to run their business.	3.17	0.865	63.44
12. Customers usually are committed to pay premiums at the time maturity date.	3.16	0.963	63.13
13. Does not happen any problems between the bank and personal guarantors of the customers.	3.11	0.945	62.19
14. The customer has sufficient investment awareness.	3.06	0.833	61.25
<b>Average</b>	<b>3.74</b>	<b>0.869</b>	<b>74.84</b>

Average of (3.74) is of positive arithmetic rate. To test first hypothesis study, the researcher using t test per sample and the following table shows: Table 2 T test results per sample to test first hypothesis study (table 3).

T Value.	The degree of freedom	Significance level	T. indexed
19.032	63	0.000	3.0000

Through previous table that calculated T value was larger than T. Indexed at level less than (0.05) which indicates that the credit facilities related to customers borrowers important factor affecting the credit facilities (Table 4).

Paragraph	Arithmetic mean	Standard deviation	Approval rate
Documentation of debt is accurately and legally.	4.47	0.503	89.38
Loan guarantees are assessed accurately and credibility.	4.41	0.495	88.13
Availability of collateral is a key factor in the granting of loans.	4.23	0.886	84.69
Officials of credit are able to analysis credit.	4.08	0.741	81.56
Credit policy is drawn through the case study.	4.06	0.560	81.25
Loans are pursued through the periodic reports provided by the customer.	4.02	0.984	80.31
It is possibility that the value of collateral is greater than the amount of loan required.	3.89	1.086	77.81
Negotiating with the bank by customers regarding loan discount mechanism is possibility.	3.88	0.701	77.50
The purpose of the loan application by the client affects the decision granting of the loan.	3.72	1.147	74.38
Deducting interest mechanism depends on the type of loan required.	3.55	1.097	70.94
Interest rates are determined for loans granted easily.	3.30	1.034	65.94
Average	3.96	0.840	79.26

Previous table shows that all paragraphs expressing second study factor have got a positive arithmetic averages ranged between (3.30-4.47) and reached overall rate (3.96) is positive arithmetic rate.

To test second hypothesis study, the researcher using t test per sample and the following table shows: Table 3. T test results per sample to test second hypothesis study Table 5:

T Value.	The degree of freedom	Significance level	T. indexed
15.314	63	0.000	3.0000

Through previous table that calculated T value was larger than T. indexed at level less than (0.05) which indicates that the credit facilities related to credit policy important factor affecting the credit facilities.

## FINDINGS OF THE STUDY

### Demographic Profile

The demographic and loan details of customers are considered for this study. The sample unit consists of 65.3 percent of male applied for home loan. Further, the sample unit is dominated by 39.4 per cent in the age group 31-40 years. 75.2 percent or the post

graduates are applied for housing loan. 75.2 per cent of the home loans are applied by Government employees. It is also found that 84 per cent of home loans are issued for income earners of Rs30,000.

### Factor Analysis

'T' value was larger than at level less than (0.05) which indicates that the credit facilities related to customers borrowers important factor affecting the credit facilities. Study factor have got a positive arithmetic averages ranged between (3.30-4.47), and reached overall rate (3.96) is positive arithmetic rate. The calculated value being more, then difference in the effects of income level is significant. Hence in both cases null hypothesis is rejected and alternative hypothesis is accepted.

## DISCUSSION AND CONCLUSION

In observation of the discriminating housing scarcity in the country, and the social- economic role of commercial banks in the present times, the RBI advised the banks to encourage the flow of credit for housing finance. It was very commonly known that own house has played an important role in human life. From the analysis we can conclude that the performance of the banks in granting the housing credit over the years is fine even with high competitive environment and certain limitations at a few areas of the bank. Concentrating on the three main categories such as short term, medium term and long term loan the banks were able to pool up different categories of customers over years and increases its loans and advances. The percentage of lending has gradually increased as with the growth of bank. No doubt it will enhance the end cost people to plan their house over durations.

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