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A Study of Consumer Buying Behavior for Home Financing With Special Reference to India Shelter, Kota

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Abstract

Every human being aspires to have his own house to live in. After food and clothing, housing is the third most important human requirement. On average, a person spends almost two-thirds of his life in a house which is his sanctuary in his old age. Adequate housing is, therefore, a fundamental need of human beings and an essential prerequisite for physical, intellectual and mental development.

The term "Housing Loan" is a loan of finance for buying or modifying the house. Blessed are those who live in their own house and fortunate are those who have the money to buy one. But all are not privileged to buy a house of their own. For many such privileged, buying a house has become possible in modern times through housing loans. 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. Hence, the "Housing Loan" may be defined as a financial resource for an individual or a group of persons who use it especially for the purpose of housing.

The paper aims to study the buying behavior of consumer for home financing. Several factors – including socioeconomic profile of the respondents, number of earning members in the house of the applicant to increase his eligibility of getting a home loan, type and purpose of loan seeker, average general loan amount and tenure seeker's preference, and the customer awareness regarding their CIBIL scores were explored.

Keywords: Housing Loan, Buying Behavior, Socioeconomic Profile, Tenure, CIBIL Scores

Concept of Housing Loan

Having decided to get a housing loan, one has to choose the suitable housing finance company (HFB) first. The present housing loan market is so conducive that a person can apply for a housing loan to any of the housing finance institutions at any time after deciding to acquire or construct a property, even if he has not selected the property or started construction. Most of the housing finance banks have their guidance cells, which help the prospective customers of housing loan in the selection of property and completing all the legal formalities of acquiring the property or construction of house according to their requirements.

Features of Housing Loan

- Quantum of loan
- Term of repayment
- Interest on housing loan
- Processing and administrative fees
- Equated monthly installment (EMI)
- Repayment of housing loan
- Documentation for housing loan
- Security for housing loan

Different Types of Housing Loans

There are various types of housing loans available in the housing finance market for prospective customers.

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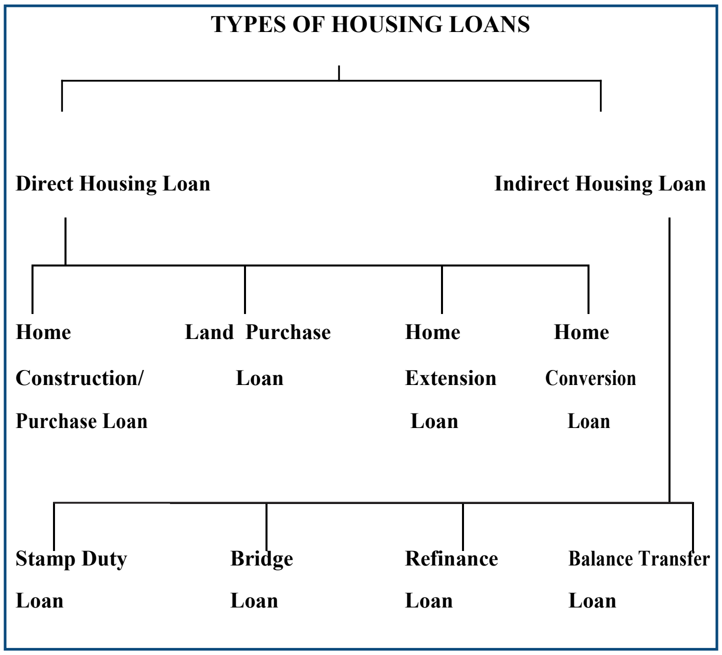

Fig. 1: Types of Housing Loans

EMI (Equated Monthly Installments)

Calculation of EMI: An EMI can be calculated on a daily reducing, monthly reducing, quarterly reducing, half-yearly or yearly reducing basis. The EMI will be lowest if it is calculated on a daily reducing basis.

Daily Reducing Basis: Even better than monthly reducing calculations a daily reducing method, which some banks apply.

Monthly Reducing Balance: Now, let us take a real-life example of an EMI calculated every month. Keeping the loan amount at 1 Lakh, the period as 15 years and the rate of interest as 12%, the bank will change the principal outstanding every month. After the customers pay their EMI for the month, the new reduced amount will be calculated only for the next month.

Similarly, in a quarterly, half-yearly or annual reducing balance, the interest is levied according to principal outstanding at the end of these periods. Progressively, the EMI works out to be more, with the highest being at an annual reducing basis.

Computation of EMI is calculated with the help of the following formula:

$$\text{EMI} = L \times r \times (1 + r)^n/((1 + r)^n - 1)$$

Where, L - Loan Amount

r - Rate of Interest in Decimals

n - Period of Loan (in years)

Interest Rate

Interest rates continue to be calculated in different ways. The methods that are no longer widely used are flat rate and annual reducing basis.

CIBIL Score

TransUnion CIBIL Limited is India's first Credit Information Company, also commonly referred to as a Credit Bureau. It collect and maintain records of individuals' and non-individuals' (commercial entities) payments pertaining to loans and credit cards. These records are submitted to us by banks and other lenders every month; using this information, a Credit Information Report (CIR) and Credit Score are developed, enabling lenders to evaluate and approve loan applications. A Credit Bureau is licensed by the RBI and governed by the Credit Information Companies (Regulation) Act of 2005.

The CIBIL score plays a critical role in the loan application process. After an applicant fills out the application form and hands it over to the lender, the lender first checks the credit score and credit report of the applicant. If the credit score is low, the lender may not even consider the application further and reject it at that point. If the credit score is high, the lender will look into the application and consider other details to determine whether the applicant is credit-worthy. The credit score works as a first impression for the lender, the higher the score, the better are your chances of the loan being reviewed and approved. The decision to lend is solely dependent on the lender, and CIBIL does not, in any manner, decide if the loan/credit card should be sanctioned or not.

Literature Review

Gupta, U. and Sinha, R. (2017) discussed that the demand for home loans has been increasing in India due to the requirements of residential accommodation. A large amount of Indian population is availing the home loan facility. It is important for the institutions offering the home loans to consider and keep a track of the factors affecting the decision of the buyers to avail the home loan. Home loans benefit the buyer not only in terms of gaining an asset but also in terms that it is a good instrument of saving; for employed ones, it turns out to be a source of tax benefit also.

Kumaraswami M. and Nayan J. (2014) discussed the importance of housing finance and the institutions providing housing finance. A detailed discussion of the marketing strategies adopted by financing institutions has been discussed by taking into account the loan criteria eligibility, loan amount, interest rate, security, loan tenure, margin and processing fee. Finally, the paper highlights the performance of the housing sector, major findings and suggestions to improve the effective marketing of housing finance for both public and private sector banks.

Narwal, M. S., Rani, S. and Guar, R.'s (2013) study revealed that customer preferences for home loans are affected by the customer-friendly environment, processing and disbursing, rate of interest, payment terms and conditions, and freebies offered by the banks. Determining consumer preferences ahead of time provides a competitive advantage, avoids unnecessary spending and helps quickly establish a solid following.

Devlin, J. F. (2002), According to him, choosing a home loan institution based on professional advice is the most frequently chosen criterion, closely followed by interest rates. However, differences in the importance of choice criteria with respect to gender, class, income, education, ethnicity and financial maturity are apparent.

The Objective of Study

Analysing the consumer's behavior for home loans offered by India shelter:

- To study the socioeconomic profile of the respondents.
- To know about the number of earning members in the house of the applicant to increase his eligibility of getting a home loan.
- To know the type and purpose of loan seeker wants.
- To know the average general loan amount and tenure seeker prefer.
- To know about the customer awareness regarding their CIBIL scores.

Research Design

• Universe	Home loan seeker from India Shelter, Kota Branch
• Type of Research	Descriptive research
• Sample Unit	Individual seeker
• Sample Size	100 loan seeker
• Sampling Method	Non-probability convenience sampling
• Tools for analysis	Chi-square test with SPSS

Data Collection Method

Primary Data

Primary data are collected through the responses of the consumer through questionnaires which were specially prepared for this study. The questionnaire contained questions regarding the general and socioeconomic characteristics of the respondents such as age, educational qualification, etc., and also about their reason for taking a home loan, term, rate of interest, procedure, etc.

Secondary Data

There was extensive use of secondary information in the form of books, articles published in magazines, journals, newspaper, reports of India Shelter, websites, circulars, pamphlets of the banks, clippings, etc.

Limitations of the Study

- The research study was taken in a limited area only, and findings may vary if the area of study is changed.
- Because of the limited time, research is conducted with only 100 customers.
- Some respondents at times can be biased in their responses and as such analysis and conclusion based on it could vary to some extent.
- The data being time-bound are also influenced by macroeconomic conditions and the economy as a whole.
- The data collected from the customer are qualitative, i.e. views, perception, satisfaction, opinion, etc., may change from time to time.

Scope of the Study

In the current scenario, the housing finance business has become liberalized and competitive. It is found that exploring the behavior of the customers will give an insight to housing finance to maximize their customers.

Data Analysis

Table 1: Demographic Factors (N=100)

S.No.	*Demographic Factors*		*Response*
1	Gender	Male	87
		Female	13
2	Age Group	25–35	14
		35–45	43
		45–60	31
		Senior citizen	12
3	Marital Status	Unmarried	3
		Married	97
4	Occupation	Self Employed	28
		Govt. Employee	12
		Private	46
		Daily Wages	0
		Retired	14
5	Annual Income	Below Rs. 2,00,000	23
		Rs. 2,00,000–5,00,000	58
		Rs.5,00,000–8,00,000	17
		Above Rs. 8,00,000	2
6	Earning Members	1	71
		2	19
		3	8
		More than 3	2
7	Taken Loan Earlier	Yes	11
		No	89

Source: Analysis of tabulated data

Table 2: Buying Behavior Factors (N=100)

S.No.	Buying Behavior Factors		Response
1	Type of home loan to be taken	Home purchase	7
		Balance Transfer	2
		Home expansion	35
		Home Construction	56
2	Reason for home loan	Investment Desire	59
		Income tax relief	0
		To receive rent	12
		Other	29
3	Source of information about India Shelter products	Newspaper	31
		Hoarding/Banners	23
		Internet	7
		Friends/Relatives	19
		Other	20
4	Amount of Housing Loan	2-5 lakhs	23
		5-10 lakhs	59
		10-15 lakhs	15
		15-20 lakhs	3
		20-25 lakhs	0
5	Duration of tenure of loan recommend	5-9 Years	26
		9-13 Years	52
		13-17 Years	18
		17-20 Years	4
6	Repayment of loan when facing financial problem	Borrow from relative	73
		Borrow from financial institution	0
		Apply personal loan from Bank	0
		Other	27
7	Securities to deposit	Land Paper	91
		Other	9
8	Nominee	Sibling	18
		Spouse	23
		Children	59
		Other(Relative)	0
9	Name of the Bank having account to pay the loan	SBI	31
		CBI	13
		HDFC	7
		Other	49
10	Knowledge of current CIBIL	Yes	29
		No	71
11	Decision to take home loan	Yes	67
		No	33

Source: Analysis of tabulated data

Hypothesis Objective 1

Null Hypothesis (H_0): There is no significant relationship between the loan amount and tenure of loan repayment.

Alternative Hypothesis (H_1): There is a significant relationship between the loan amount and tenure of loan repayment.

Table 3: Amount of Housing Loan (in Lakhs) and Loan Tenure (in Years)

Amount of Housing Loan (In Lakhs)		*Tenure of Loan Repayment (In Years)*				*Total*
		5-9 yrs	*9-13 yrs*	*13-17 yrs*	*17-20 yrs*	
3-5 lac	Count	23	0	0	0	23
	% of Total	23.0%	0.0%	0.0%	0.0%	23.0%
5-10 lac	Count	3	52	4	0	59
	% of Total	3.0%	52.0%	4.0%	0.0%	59.0%
10-15 lac	Count	0	0	13	2	15
	% of Total	0.0%	0.0%	13.0%	2.0%	15.0%
15-20 lac	Count	0	0	1	2	3
	% of Total	0.0%	0.0%	1.0%	2.0%	3.0%
Total	Count	26	52	18	4	100
	% of Total	26.0%	52.0%	18.0%	4.0%	100.0%

Chi-Square Tests

	Value	*df*	*Asymp. Sig. (2-sided)*
Pearson Chi-Square	183.135[a]	9	.000
Likelihood Ratio	157.403	9	.000
Linear-by-Linear Association	82.566	1	.000
N of Valid Cases	100		

Result of Cross Tabulation

From the Chi-square test output table, a significance level of .000 has been achieved. This means the chi-square test is showing a perfect significant association between the above two variables at 95% confidence level. Hence, the null-hypothesis is rejected and we can conclude that at 95% confidence level, there is a significant association between the loan amount and tenure of loan repayment.

Hypothesis Objective 2

Null Hypothesis (H_0): There is no significant relationship between age of consumer and tenure of loan repayment.

Alternative Hypothesis (H_1): There is significant relationship between age of consumer and tenure of loan repayment.

Table 4: Age and Tenure of Loan Repayment (in Years)

Age		*Tenure of Loan Repayment (In Years)*				*Total*
		5–9 yrs	*9–13 yrs*	*13–17 yrs*	*17–20 yrs*	
25-35 yrs	Count	7	3	4	0	14
	% of Total	7.0%	3.0%	4.0%	0.0%	14.0%
35-45 yrs	Count	8	24	9	2	43
	% of Total	8.0%	24.0%	9.0%	2.0%	43.0%
45-60 yrs	Count	6	19	5	1	31
	% of Total	6.0%	19.0%	5.0%	1.0%	31.0%
Above 60 yrs	Count	5	6	0	1	12
	% of Total	5.0%	6.0%	0.0%	1.0%	12.0%
Total	Count	26	52	18	4	100
	% of Total	26.0%	52.0%	18.0%	4.0%	100.0%

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	13.336[a]	9	.148
Likelihood Ratio	15.783	9	.072
Linear-by-Linear Association	.087	1	.769
N of Valid Cases	100		

Result of Cross Tabulation

From the Chi-square test output table, a significance level of .148 has been achieved. This means the chi-square test is not showing a significant association between the above two variables, even at 85% confidence level. Hence, the null-hypothesis is accepted. Now, we can conclude that at 95% confidence level, there is no significant association between age and tenure of loan repayment.

Findings and Conclusion

The findings of the questionnaire based research on the behavior of the consumers seeking a home loan from India shelter are as follows:

- Socioeconomic profile of the respondents:
  - Majority (87) of the respondents were male.
  - Majority (43) of the respondents were from the 35-45 years age group.
- Majority (71) of the respondents were the only earning member of their family.
- Type & purpose of the loan:
  - Majority (56) of the respondents applied loan for home construction.
  - Majority (59) of the respondents were found to opt for investment desire.
- Amount of loan & tenure of loan:
  - Majority (59) of the respondents applied for loan amount between 5-10 Lakhs
  - Desired tenure opted by the majority (52) was from 9-13 years.
- Majority (71) of the respondents were not aware of the term credit score or CIBIL score.
- Hypothesis result:

  After testing various hypotheses framed regarding consumer behavior for a home loan, it can be concluded that:
  - There is a significant relationship between the loan amount and tenure of loan repayment.
  - There is no significant relationship between age of consumer and tenure of loan repayment.

Suggestions

- Company may update (reduce) their interest rate slabs to increase the prospects conversion ratio.
- Company must emphasize more on the digital advertisement to attract more prospects.
- Company must start an awareness program related to the CIBIL or credit score information of the customer.
- Company must makeshift toward flexi interest rate from the fixed interest rate.

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Web Resources

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