

# An Assessment of Defaulter's Behavior towards Repayment of Home Loan in Private Home Finance Service Sector, Madurai

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## Abstract

*Owning House is one of the basic fundamental element since the dawn of the civilization. The study attempts to understand the reasons for default and the level of awareness and its consequences faced by the defaulters in paying the home loan availed from private financial service sector both at economical and social front. The study engaged a statistical analysis and found that whether the family income has substantially helps to make the payment and defaulters awareness on impact of CIBIL Score, Future borrowing power, other possible means of making payment, Declaration of NPA, and defaulters intuition of making EMI Payment on time and stress faced by them.*

**Keywords:** NPA, Home Loan, EMI, Defaulters, Financial Service Sector

## Introduction

Owning House is considered as basic fundamental element as it not only indicates the standard of living among family but also ensures that government provides adequate provisions for its citizen to live a good quality of life. In this regard, Government of India mulls over designing Various Housing Loan schemes catering to the expectations of varying income category individuals. Housing loans possess low interest comparative to other loans offered by banks and Housing loan finance companies in order to attract public to avail loan and own a house. Though the finance service offering has been done with low interest rate, ease of loan procedural formalities, repaying capacity, Home loan seekers creditworthiness, etc. considering the increasing demand of real estate business in the market. The SEBI has designed specific index for tracking the real estate and separate investment vehicles REIT (Real Estate Investment Trust) for developing the real estate in the country. Though Housing loan offered with lot of caution and promotion, there exists defaulters in making the home loan because of various reasons such as financial instability, other prioritized obligations, etc., It is imperative to understand the reasons, level of awareness, behavioral patterns of defaulters and its serious consequence in their financial track record, other via mode that they are taking to make up the home loan from defaulters perspective.

## Review of Literature

Dr.Hiren Harsora et al<sup>1</sup> has attempted to study about the Customer behavior towards housing loans by way of understanding the perceptions of interest rates of home loan, comparison of interest rates with other available loans offered by Financial Institutions and the challenges faced by respondents while availing the housing loans. The statistical analysis on the data collected from 150 samples proven that there is no significant difference between age and the above perception parameters. It is also evident that there is no significant between varying age category and recommendations of financial institutions to others for availing Housing loans.

Vinoth and Pavithra<sup>2</sup> has taken a descriptive study to understand the set of considerations before taking a home loan decision in banks. Corporate efficiency, Interest rates, Procedural requirements and Customer Satisfaction are the factors considered to have an impact on purchasing decision. The increasing income category (Upto 25000, Upto 50,000, Upto 1,00,000, Above 1,00,000) in 150 samples shows that loans are availed for new construction, renovation and expansion & extension respectively and the aforesaid factors have a moderate inter correlation among themselves. Also the study designed a linear model which proves that all the four factors has a very strong and significant relationship towards purchase decision.

Dr. P.Venkatesh et al<sup>3</sup>, carried out a study to identify the factors contributing towards the Customer satisfaction towards Home loan. The study examined the various housing loans are offered in India. Analysis performed and found that there is no significant relationship between EMI amount and Bank Rating and there exists a significant relationship between bank rating and Customer satisfaction of the bank.

Mr. Animesh Singh and Prof. Madhurima Lall<sup>4</sup>, executed an exploratory study on identifying the factors affecting the customer satisfaction of towards home loan offered by HDFC and LIC Housing Finance Ltd. 29 items have taken for the survey with 240 respondents and the exploratory factor analysis confirms seven factors namely: Responsiveness, Reliability, Communication, Trustworthy, Access, Credibility and Customer Satisfaction. All the factors shows significant impact on Customer satisfaction towards availing home loan in both the companies.

Honey Anant and Imran Nadeem Siddiqui<sup>5</sup> outlined both Qualitative and Quantitative research on studying the Customer Perception and Satisfaction towards Home loan specific to Home First Finance Company India Ltd. Despite the varying demographic factors such as age, gender, income,

etc., the success factors that stood for the company are Hard Work, Discipline and Co-operative structure of employees to attain customer satisfaction.

Aditi Deshmukh, Dr. Mahendra Yadav and Dr. Rajendra Jarad highlighted the customer perceptions such as Interest rate and Loan tenure, Customer Service, Transparency and Trust and service quality on customer satisfaction towards home loan in Amaravati region. It is found that majority of the respondents falls under the age category 30-40 having loan tenure of 8-10 years, availing secured loan between 15 lakhs to 20 lakhs with an interest rate of 8-10% and with short loan duration process of 1-2 months. Interest rate has been the most satisfying factor for availing home loan.

### Objectives of the Study

- To learn about socio economic profile of the respondence.
- To measure the level of awareness among the customers towards credit ratings for defaulting EMI payments and NPA.
- To identify the difficulties faced by the customers in repayment of housing loan EMI's.
- To analyse the factors for default payment in housing loans EMI's.

### Research Methodology

Structured questionnaire designed to extract relevant information. Our proposed sample size consists of 180 customers from home finance companies in Private Sector and developed 20 targeted questions that cover various aspects of customer satisfaction and awareness.

### Data Analysis

#### 01) Percentage Analysis:

##### Source of income

Source of income	No. of respondents	In %
Salaried	65	36%
Self-employed or business	59	33%
Other sources	30	17%
Commercial and rental income	26	14%

##### Family Income

Family monthly income	Number of respondents	In %
20,000 – 40,000	121	67%
40000 – 60,000	40	22%
60,000 – 80,000	13	7%
80,000- above 1 lakhs	6	4%

### Loan Amount

#### Loan Type or Purpose of Loan

Loan amount	No. of respondents	In %
1 - 10 lakhs	89	49%
11 - 20 lakhs	45	25%
21 - 30 lakhs	26	15%
41- 50 lakhs	12	7%
Above 50 lakhs	8	4%

Loan type or purpose of loan	No. of respondents	In %
Purchase of home (ready to occupy)	44	24%
Construction of house	34	19%
Lap (loans against property)	23	13%
Purchase of vacant plot	23	13%
Balance transfer (BT)	22	12%
Top-up loans	19	11%
Construction of commercial building	8	4%
Renovation / repair housing loan	7	4%

### EMI Amount

EMI amount	No. of respondents	In %
Upto 10,000	70	39%
11,000- 30,000	68	38%
31,000 – 50,000	25	14%
51,000 – 80,000	12	6%
Above 80,0000	5	3%

### EMI Payment on Due Date

Do you pay EMI payment on due date?	No. of respondents	In %
Ignored to pay on time	57	32%
Sometimes missed on time	48	27%
Much prioritized	39	22%
Prioritized	36	20%

### Other financial obligations not able to make up the payment

Other financial obligations not able to make up the payment	No. of respondents	In %
Strongly agree	77	43%
Agree	41	23%
No opinion	26	14%
Strongly disagree	21	12%
Disagree	15	8%

### Reason for Dishonoring the payment

What would be the reason for dishonoring the payment	No. of respondent s	In %
Unexpected financial needs	43	24%
Delay in income sources	43	24%
Other EMI obligations	39	22%
Loss or less turnover in business	35	19%
Poor fund management or budgeting	20	11%

**Penalty are charged heavily that makes up to non-payment**

Penalty are charged heavily that makes up to non-payment	No. of respondents	In %
Strongly agree	68	38%
Agree	34	19%
No Opinion	48	27%
Strongly disagree	16	9%
Disagree	14	8%

**Family members support you in clearing the home loan EMIs**

Family members support you in clearing the home loan EMIs	No. of respondents	In %
Strongly agree	42	23%
Agree	59	33%
No opinion	50	28%
Disagree	18	10%
Strongly disagree	11	6%

### Statistical Analyses

#### Correlation hypothesis: 1

H0: There is no significant relationship between are you aware that your cibil score will affect in case of default and are you aware that your loan will be marked as NPA if 3 consecutive EMI's are not paid.

H01: There is significant relationship between are you aware that your cibil score will affect in case of default and are you aware that your loan will be marked as NPA if 3 consecutive EMI's are not paid.

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<b>Correlation hypothesis 1</b>	<b>Are you aware that your CIBIL score will affect in case of default</b>	<b>Interpretation</b>
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<b>Are you aware that your loan will be marked as NPA if 3 consecutive EMIS are not paid</b>	<b>Pearson's r</b>	<b>0.643</b>	<b>The P- Value is less than 0.05 (Level of Significance).Alternate Hypothesis is accepted.</b>
	<b>df</b>	<b>178</b>	
	<b>p-value</b>	<b>&lt;.001</b>	

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#### Correlation hypothesis 2

H0: There is no significant relationship between are you aware that your cibil score will affect in case of default and Do you aware that your future loan has severe implications in case of default on home loan.

H01: There is significant relationship between are you aware that your cibil score will affect in case of default and Do you aware that your future loan has severe implications in case of default on home loan.

Correlation hypothesis 2	Are you aware that your CIBIL score will affect in case of default	Interpretation
<b>Do you aware that your future loan has severe implications in case of default on home loan</b>	Pearson's r 0.676 df 178 p-value <.001	The P- Value is less than 0.05 (Level of Significance).Alternate Hypothesis is accepted.

### One Way ANOVA 1:

#### Hypotheses 1

**Null Hypothesis (H<sub>0</sub>):** There is no significant difference in the level of awareness about the implications of defaulting on a home loan across loan types or purposes of loan

**Alternative Hypothesis (H<sub>1</sub>):** There is a significant difference in the level of awareness about the implications of defaulting on a home loan across loan types or purposes of loan.

One-Way ANOVA 1	F	df1	df2	p
<b>Do you aware that your future loan has severe implications in case of default on home loan</b>	6.61	7	48.6	<.001

**Interpretation:** Since the **p-value (< 0.001)** is well below the common threshold of 0.05, **alternate hypothesis is accepted(H1)**. This means that there **is a significant difference** in the awareness level of the implications of defaulting on a home loan between loan types or purposes of loan.

### One Way ANOVA 2:

**Null Hypothesis (H<sub>0</sub>):** There is no significant difference in the reasons for dishonoring the payment between individuals and are you unable to make the payment due to other financial obligations.

**Alternative Hypothesis (H<sub>1</sub>):** There is a significant difference in the reasons for dishonoring the payment between individuals and are you unable to make the payment due to other financial obligations.

One-Way ANOVA 2	F	df1	df2	p
Do other Financial Obligations not able to make up the payment	1.19	4	74.7	0.322

**Interpretation:** Since the p-value (0.322) is greater than 0.05, reject the alternate hypothesis (H<sub>1</sub>). hence null hypothesis is accepted (h<sub>0</sub>). This means there is **no significant difference** in the reasons for dishonoring the payment between individuals and are unable to make the payment due to other financial obligations.

### One Way ANOVA 3:

**Null Hypothesis (H<sub>0</sub>):** There is no significant difference in the average family monthly income based on whether or not family members support in clearing the home loan EMIs.

**Alternative Hypothesis (H<sub>1</sub>):** There is a significant difference in the average family monthly income based on whether or not family members support in clearing the home loan EMIs.

One-Way ANOVA 3	F	df1	df2	p
Do any of your family members supports you in clearing the home loan EMIs	0.909	3	17.6	0.456

**Interpretation:** Since the p-value (0.456) is greater than 0.05, reject the alternate hypothesis (H<sub>1</sub>). hence null hypothesis is accepted(h<sub>0</sub>). This means that **there is no significant difference** in the average family monthly income between those who receive support from family members in clearing home loan EMIs.

### Other Findings:

- Majority of the respondents (57%) aware that Cibil score will affect in case of default.
- **Half of the respondents** confirm that companies provide adequate remainders well in advance before due date.

- Majority of the respondents (54%) avoids using borrowed funds from local money lenders for clearing the default on regular basis.
- Majority of the respondents (53%) aware that their loan will be marked as NPA if 3 consecutive EMIs are not paid.
- Half of the respondents aware that future loans has severe implications in case of default on home loan.

## Suggestions

- Since 31% of respondents have ignored timely payments, it suggests that some may be unaware of the consequences. Strengthening reminder systems, through digital channels or personalized alerts, can ensure timely payments and reduce defaults.
- With 51% of respondents using NACH for EMI payments, and others still relying on cheques (8%), there is an opportunity to encourage more automated payment options. Promoting NACH or similar methods can help reduce payment delays and ensure timely repayments.
- Introducing mobile apps or online platforms that allow borrowers to track their loan balance, upcoming payments, and receive real-time alerts about due dates or changes in interest rates could improve payment discipline and reduce defaults.
- one-on-one consultations at the time of loan disbursement can equip borrowers with a better understanding of their repayment schedules, penalties, and ways to avoid default. This could reduce defaults by setting clear expectations.
- Financial institutions could incorporate risk mitigation measures, like insurance policies against high-value loans, including the life cover insurance for the borrower and adding on property insurance, to protect both borrowers and lenders in cases of default during the loan period.

## Conclusion

A significant portion of Private Financial Service Sector Housing Loan companies customers are from non-salaried backgrounds, such as self-employed individuals and business owners. This indicates the company's focus on financial inclusion and providing access to credit for those without Chat monthly incomes. Many borrowers face difficulties in repayment due to fluctuations in income, economic uncertainties, and external financial commitments. Timely interventions and flexible repayment options are essential to support these customers and reduce defaults. This sector adopted customer-centric policies based on RBI guidelines, This move helped customers navigate financial difficulties while ensuring the company maintained customer loyalty. Interest rate fluctuations have a

significant impact on customer repayment behavior. To mitigate risks associated with defaults, the company should adopt data-driven decision-making, strengthen credit appraisal methods, and implement efficient loan monitoring systems.

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