International Journal of Research Publication and Reviews

Factor Influencing Customer Choice While Selecting Bank and Housing Finance Companies for Home Loan

Bharat G. Dixit [1], Dr. S. Balasubramanian [2]

[1]Research Scholar and Assistant Professor KBS Commerce & Nataraj Professional Sciences College, Vapi, Gujarat
[2]Associate Professor and Vice Principal, Government College, Daman, Union Territory of DNH and DD

A B S T R A C T

Owning a house is increasingly viewed as a critical path to wealth accumulation for middle-income families residing in India's urban centers. Good housing is considered an essential prerequisite for human development and well-being. Without adequate housing, individuals cannot fully realize their potential or lead the lives they aspire to. In today's rapidly changing lifestyle landscape, young individuals from the middle-income bracket are eager to own their dream homes, recognizing it as a fundamental requirement for healthy living in society. However, as property prices continue to rise and purchasing power diminishes, middle-class families face mounting challenges in accumulating the substantial funds necessary for homeownership. To fulfill their aspirations of owning a house, a home loan emerges as the most viable option for these aspiring individuals and families. The present study seeks to delve into the factors influencing customers' choices when selecting banks or housing finance companies for home loans. The research also takes into account socioeconomic and demographic factors, examining the extent of their influence. The study's findings reveal that the selection of banks and housing finance companies by customers hinges on several financial considerations, such as loan processing fees, interest rates, the timely provision of information including pre-closure charges and income tax services, the speed of loan approval, and the quality of customer service and interaction.

Keywords: Banks, Housing Finance companies, Home loan factors, interest rates etc.

INTRODUCTION

In the dynamic landscape of homeownership in India, one of the pivotal decisions for aspiring homeowners is the choice of the financial institution that will provide them with a home loan. This decision, often intertwined with financial security and life goals, carries profound implications not only for the individuals and families involved but also for the broader economic fabric of the country. The selection of a bank or housing finance company for a home loan is a multifaceted process, guided by a range of factors that collectively determine the path to realizing the dream of homeownership.

This study delves into the complex dynamics of this decision-making process, aiming to shed light on the critical factors that influence customers when they make their choices. In an environment characterized by diverse financial products, fluctuating interest rates, and evolving customer preferences, the factors affecting the choice of a home loan provider are both numerous and nuanced.

To make an informed choice, customers consider a multitude of financial aspects, including the fees associated with loan processing, the interest rates that will determine the cost of borrowing, and the transparent and timely sharing of crucial information, encompassing pre-closure charges and income tax services. Furthermore, the speed of loan approval, a key determinant of when homeownership can be achieved, plays a pivotal role. Equally important is the customer's experience during the application and servicing process, which can significantly influence their overall satisfaction with the lending institution.

As homeownership remains a cornerstone of financial stability and individual aspirations in India, understanding the factors that influence the choice of a home loan provider is not only of great interest to the customers but is also of vital importance to the Bank and financial institutions themselves, as they seek to adapt their offerings to better serve their clientele. This study aims to unravel the intricate web of these influencing factors, taking into account demographic and socioeconomic variables, ultimately contributing to a more comprehensive understanding of this crucial aspect of the Indian housing market.

LITERATURE REVIEW

According to Shani's 2011 study on "Customer Satisfaction with Housing Loans at Corporation Banks," the research findings indicate that respondents placed greater importance on customer service. Moreover, customers exhibited a strong preference for institutions offering loan processing within a

timeframe of 3 to 4 weeks. The study also found no discernible correlation between monthly income and the choice of interest rate. Notably, the research results revealed a significant relationship between the level of customer service and the likelihood of customers recommending these institutions to others.

In a 2012 study conducted by Rashid in the context of the developing country Bangladesh, the research focused on banking selection criteria among different demographic groups, specifically students. The study revealed that Electronic Banking and the Competence of the bankers were the top preferences among these groups. Furthermore, the study identified 'third party influences' as the third significant element in the selection process. This referred to the impact of recommendations from friends and family members, suggesting that personal referrals played a noteworthy role in the decision-making process.

In 2013, Mohamad Sayuti Md. Saleh conducted a study that extended beyond the exclusive consideration of bank selection for loan purposes. Instead, the study encompassed a broader perspective, addressing bank selection for various purposes. The study's findings revealed that the primary factor of significance in bank selection was "Accessibility." Under this category, factors such as the availability of ATM facilities, the convenience of ATM locations, and the 24-hour availability of ATM services were identified as sub-factors contributing to the overall accessibility factor.

The study conducted by Narwal in 2013 discovered that customer preferences for home loans are influenced by several key factors. These factors include the customer-friendly environment provided by the banks, the efficiency of loan processing and disbursement, the rate of interest, the payment terms and conditions, as well as any additional incentives or "freebies" offered by the banks. Understanding and anticipating consumer preferences in the context of home loans can offer several advantages. It can provide a competitive edge for banks, allowing them to tailor their services to meet customer expectations effectively. This proactive approach not only avoids unnecessary spending but also facilitates the swift establishment of a strong and loyal customer base.

In a 2017 study by Gupta investigated customer satisfaction with housing loans. The findings highlighted that customers who utilized the overdraft facility tended to be more satisfied than those who did not. Moreover, legal formalities and procedures significantly influenced customer satisfaction, shaping their overall experience. The study also provided a comprehensive analysis of the step-by-step housing loan approval process. Additionally, the research considered various factors such as credit ratings, past repayment behavior, borrower capacity, adherence to rules and regulations, and the presence of Non-Performing Assets (NPAs), all of which collectively contributed to the overall assessment of customer satisfaction with housing loans.

Ms. M. Sughana and Prof. P. Sheela (2021) pointed out that the key determinants guiding customers' choices between banks and housing finance companies are primarily related to financial aspects, particularly processing fees and interest rates. The study also highlighted the importance of timely dissemination of information, such as pre-closure charges and income tax-related services, as well as the speed of loan approval, which were identified as critical factors for customers in making their decisions. Ultimately, the study concluded that the overall quality of services offered by the bank or housing finance company plays a significant role in influencing customer decision-making.

In a study conducted by Animesh Singh and MadhurimaLall in 2021, it was observed that the practice of waiving pre-payment penalty charges has intensified competition among banks and housing finance companies. This competitive environment has raised concerns among regulators regarding the potential decline in underwriting and appraisal standards. The study also emphasized that factors such as credibility, reliability, and accessibility are crucial for achieving success and building a strong reputation among customers. Additionally, the study recommended that enhancing communication and trustworthiness can be effective strategies to instill confidence among the bank's clients.

RESEARCH METHODOLOGY

Research methodology is the structured and systematic approach to planning, executing, and assessing research endeavors. It encompasses the fundamental principles, methodologies, and techniques employed in the collection and analysis of data, all of which are aimed at addressing specific research inquiries or examining hypotheses.

Objectives of the study

1. To study the factors Influencing customers Choice while selecting bank and housing finance companies for home loan

2. To study and rank the factors responsible for selecting bank and housing finance companies for home loan

3. To offer suggestions and recommendation to bank and home loan financial companies for further improvement.

Research Design

The research in question adopts a descriptive research methodology with the precise objective of evaluating the factors influencing consumer choice in the selection of banks and housing financial companies within the Valsad district. This study employs a combination of quantitative and qualitative data collection methods, such as surveys and interviews, to gather information. The data is subsequently analyzed to gain insights into consumer behavior, and if necessary, these insights are used to formulate recommendations.

Source of Data

Primary Data

In this research, primary data is acquired through a thoughtfully crafted and meticulously structured questionnaire. Primary data refers to information that is collected by the researcher for the first time, exclusively for the purpose of this study. It holds a distinctive and original character since it is custom-tailored to fulfill the research objectives. The research included a field survey conducted in the Valsad district, where a total of 100 bank customers were selected as respondents for the study.

Secondary Data

Secondary data refers to information that has been previously gathered by individuals or organizations for purposes unrelated to the present research study. This data can encompass both qualitative and quantitative information and is obtained from a diverse range of sources, including journals, magazines, websites, newspapers, and other similar resources.

Sampling Design

In this research study, the convenience sampling method was employed to choose respondents from the Valsad district. Convenience sampling is a form of non-probability sampling in which respondents are selected primarily based on their convenient accessibility and proximity to the researcher. This approach is often preferred for its practicality and the ease it offers in terms of data collection.

Data Analysis Techniques

In this study, statistical software (SPSS) has been used to conduct the data analysis. The analysis involved a range of statistical techniques, including descriptive statistics for uncovering data patterns, chi-square analysis to investigate relationships within categorical data, ANOVA analysis for assessing differences between groups, and percentage analysis to present data in a user-friendly format. The combination of these methods facilitated a thorough and insightful examination of the research data, ensuring that findings were accurately derived and effectively summarized.

Hypothesis Testing:

The following Null Hypotheses are framed and tested to identify the significant relationship between different factors.

1. There is no significant relationship between Monthly income and Amount of Down Payment.

2. There is no significant relationship between gender and Selection of Loan term.

3. There is no significant impact of Interest rate on customer Selection of Home loan Institution.

4. There is no significant relationship between Reputation and Trustworthiness and Previous home loan user or not.

RESULT AND DATA ANALYSIS

Reliability and Validity test

Table No. 1 Validity and Reliability Test

Case Processing Summary			
		N	%
Cases	Valid	100	100.0
	Excluded [a]	0	.0
	Total	100	100.0

Reliability Statistics	
Cronbach's Alpha	N of Items
.915	9

Validity and reliability are essential considerations when evaluating a survey questionnaire. Validity assesses if the questionnaire measures what it's supposed to measure, while reliability looks at the consistency of the questionnaire's measurements. A high level of internal consistency, measured by Cronbach's Alpha (α), indicates reliability. In the above analysis, the Cronbach's Alpha value of 0.915 for factors influencing customer choices in selecting a bank and financial company for a home loan indicates strong internal consistency, which is a positive sign for construct reliability. High reliability is a prerequisite for validity, meaning the questionnaire items must be consistently measuring the intended factors before they can be considered valid.

Validity test:

The significance level set at 0.05 (95%) was applied to the correlation table, which assessed all items related to the factors influencing customers' choices. The majority of the values in this table fell below 0.05, indicating a significant level of correlation. Furthermore, the Pearson correlation values exceeded the critical values (ranging from 0.205 to 0.197) and were highly statistically significant. Based on these results, it can be concluded that the questionnaire items are valid for measuring the intended factors.

Ranking of factors affecting selection of home loan institution

Table No. 2 Factor Ranking

	N		Mean	Ranking
	Valid	**Missing**		
Competitive Interest Rate	100	0	4.53	2
Reputation and Trust worthiness	100	0	4.26	7
Loan Application Fees and Charges	100	0	4.31	6
Flexibility of Repayment Options	100	0	4.53	2
Customer Service	100	0	4.39	5
Approval and Processing time	100	0	4.20	8
Referral or Recommendation	100	0	3.97	9
Amount of Down Payment	100	0	4.56	1
Pre-payment Penalty	100	0	4.47	3

Interpretation

The data presented unveils the key factors influencing the selection of loans or financial institutions. Notably, the amount of the down payment emerges as the most pivotal consideration, ranking first with a substantial mean value of 4.56. This underlines the critical role played by the initial financial commitment when borrowers make their choices. Competitive interest rates and the flexibility of repayment options share the second position with a mean ranking of 4.53, emphasizing the significance of affordable borrowing terms and adaptable repayment schedules tailored to individual needs. Pre-payment penalties follow closely, securing the third spot, reflecting the aversion to punitive measures for borrowers seeking to settle their loans ahead of schedule. On the other hand, reputation and trustworthiness, loan application fees and charges, and customer service hold significant weight in decision-making, ranking at 7th, 6th, and 5th, respectively. Approval and processing time, while still pertinent, take the 8th position, indicating that efficiency in these aspects is valued but not as highly as the previously mentioned factors. Finally, referral or recommendations from others rank at the bottom, at 9th place, signifying that while they may influence decisions, they are not the primary drivers behind loan or financial institution selections. This ranking underscores the intricate nature of decision-making in the financial sector, where various factors hold differing levels of importance for consumers.

Hypothesis testing and Descriptive Statistics

1. There is no significant relationship between Monthly income and Amount of Down Payment.

Table No.3 Chi- Square between Monthly Income and Amount of Down Payment

Chi-Square Tests for Monthly Income and Amount of Down Payment			
	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	13.567[a]	6	.035
Likelihood Ratio	16.672	6	.011
Linear-by-Linear Association	.003	1	.957
N of Valid Cases	100		

Interpretation:

As Sig. value is 0.035 which is less than 0.05 so there is statistically significant relationship between Monthly income and Amount of Down Payment. This result suggests that there is a meaningful and statistically supported difference between Monthly income and the Amount of Down Payment.

2. There is no significant relationship between gender and Selection of Loan term.

Table – 4 T-Test

Independent Samples T-Test		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Which loan term is preferable for you to take a home loan	Equal variances assumed	.046	.830	1.013	98	.314	.169	.167	-.162	.500
	Equal variances not assumed			1.007	90.134	.317	.169	.168	-.164	.502

Interpretation:

As Sig. value is 0.314 which is greater than 0.05 indicates that there is no statistically significant relationship between gender and the selection of a loan term. In other words, the observed differences in the selection of loan terms among different genders are not significant, and any variations could likely occur by random chance. This suggests that gender does not have a significant influence on the choice of loan term in the context being analyzed.

3. There is no significant impact of Interest rate on customer's Selection of Home loan Institution.

Table No.5 Chi- Square between Interest Rate and Selection of Home Loan Institution

Chi-Square for Interest Rate and Selection of Home Loan Institution			
	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	5.794[a]	4	.215
Likelihood Ratio	6.588	4	.159
Linear-by-Linear Association	1.000	1	.317
N of Valid Cases	100		

Interpretation:

As Sig. value is 0.215 which is greater than 0.05 suggests that there is no statistically significant impact of the interest rate on the customer's selection of a home loan institution. In this context, it means that variations in interest rates are not significantly influencing customers' choices of home loan institutions. The differences observed could likely occur due to random chance, and no significant relationship or impact can be inferred from the data.

4. There is no significant relationship between Reputation and Trustworthiness and Previous home loan user or not.

Table No.6 Chi- Square between Reputation and Trustworthiness and Previous home loan user or not.

Chi-Square for Reputation and Trustworthiness and Previous home loan user or not.			
	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	11.293[a]	2	.004
Likelihood Ratio	11.493	2	.003
Linear-by-Linear Association	.746	1	.388
N of Valid Cases	100		

Interpretation:

As Sig. value is 0.004 which is less than 0.05 indicates that there is indeed a statistically significant relationship between Reputation and Trustworthiness and whether the individual is a previous home loan user or not. In this context, it means that there is a significant relationship or difference between Reputation and Trustworthiness and the prior experience of being a home loan user. The data provides evidence to suggest that Reputation and Trustworthiness play a statistically significant role in determining whether someone has had a previous home loan or not.

CONCLUSION

The ranking reflects the importance of various factors when choosing a loan or financial institution. Further, it highlights the diverse and multifaceted nature of factors influencing the choices made by individuals when selecting loans or financial institutions. The standout factor is the initial down payment amount, reflecting its pivotal role in decision-making. Competitive interest rates and flexible repayment options also hold significant importance, emphasizing the need for affordability and adaptability in borrowing terms. Pre-payment penalties are a concern for borrowers, indicating their aversion to punitive measures.

Furthermore, reputation, trustworthiness, application fees, and customer service play vital roles in decision-making, though they occupy lower positions in the ranking. Efficiency in approval and processing time is valued but is not as critical as other factors. Lastly, referrals and recommendations, while relevant, have the least impact on choices, illustrating the intricate decision-making landscape within the financial sector.

In light of these findings, it is clear that financial institutions should prioritize transparency, affordability, and a positive customer experience to cater to the diverse and evolving needs of their customers. Understanding these multifaceted influences can guide institutions in providing more tailored and competitive offerings.

References

1. Shani N, &Sopna P. (2011). A Study on Consumer Satisfaction towards Housing Loan in Banking Sector With Reference To Corporation Banks. International Journal of Sales &Marketing Management Research and Development (IJSMMRD), 1(2), 28-35.

2. Rashid, M. (2012). Bank Selection Criteria in Developing Country: Evidence FromBangladesh. Asian Journal OfScientific Research. Https:// Doi.Org/10.3923/ Ajsr.2012.58.69

3. Narwal, M. S., Rani, S., &Radhika. (2013). Customer Preferences ForHome Loans. International Journal OfBanking, Risk And Insurance, 1(1), 47–55.

4. Mohamad Sayuti Md. Saleh, M. S. M. S. (2013). Bank Selection Criteria In A Customers' Perspective. IOSR Journal OfBusiness And Management. Https://Doi.Org/10.9790/487x-0761520

5. Gupta, S., &Awasthi, S. (2017). Assessment Of Customer Satisfaction Regarding Housing Loans: With Special Reference To Punjab National Bank. International Journal OfBusiness And Management Studies (IJMBS), 7(4), 20–25.

6. Ms. M.SughanaAnd Prof. P.Sheela(2021), Factors Influencing Customers Choice WhilefinalizingA Institution For Home Loans – A Case Study Of Visakhapatnam City, International Journal Of Multidisciplinary And Current Educational Research, Volume-3, Issue-1, Pages 192-201

7. Animesh Singh And MadhurimaLall (2021) Impact Of Factors Affecting Customer Satisfaction Towards Home Loan Scheme Of Hdfc And Lic Housing Finance Ltd: A Robust Analysis, International Journal Of Creative Research Thoughts, Volume 9, Issue 7 July 2021, Pp- 375-392