International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

Study of Various Reason of Increasing Home Loan Defaulter

Miss Khushbu Anant Gaikar[1], Prof. (Dr). Vishal Chavan[2], Prof. (Dr.) Bhawana Sharma[3]

[1]BBA (Banking & Finance) – Final Year Amity Business School, Amity University Mumbai
[2]Associate Professor Amity Business School, Amity University Mumbai
[3]Director-international affairs & Programs Amity University Mumbai

Abstract

The increasing prevalence of home loan defaulters poses a serious challenge to the stability of the housing finance sector in India. This study explores the key economic, social, and behavioral factors contributing to rising home loan defaults. Drawing from both primary data—collected through a structured questionnaire targeting borrowers—and secondary data from sources such as the Reserve Bank of India (RBI) and National Housing Bank (NHB), this paper identifies the core issues such as inadequate financial planning, high EMI burdens, income instability, poor credit underwriting, and a lack of financial counselling. The findings reveal that defaults are more common among younger and lower-income borrowers who are more financially vulnerable. The paper concludes with strategic recommendations for banks, policymakers, and borrowers to minimize future loan defaults and ensure long-term financial stability in the housing sector.

Keywords: Home Loan Defaults, Financial Literacy, Economic Instability, Borrower Behavior, Loan Underwriting, Housing Finance Sector

1. Introduction

1.1 Background of the Study

The Indian housing sector has seen rapid growth in the past two decades, driven by increasing urbanization, rising disposable incomes, and a growing middle class. Financial institutions have played a key role in this development by extending home loans to millions of individuals aspiring for homeownership. However, the rise in loan disbursements has also led to an increase in loan defaults, particularly among economically vulnerable populations.

The risk of non-performing assets (NPAs) due to home loan defaults is a major concern for banks and non-banking financial companies (NBFCs). The situation has worsened during periods of economic uncertainty, including the COVID-19 pandemic and global inflationary pressures. With defaults creating a negative spiral for both borrowers and lenders, it is crucial to investigate the underlying reasons and propose remedial strategies.

1.2 Statement of the Problem

Despite strict regulatory frameworks, the rate of default on home loans has seen a consistent rise. This not only impacts the profitability of lending institutions but also affects the borrower's credit score, future financial credibility, and mental well-being. The issue is complex, often caused by a combination of economic instability, weak borrower risk assessment, poor financial literacy, and insufficient post-loan support.

1.3 Objectives of the Study

- To identify key economic, personal, and institutional factors leading to home loan defaults.
- To evaluate the role of borrower behavior and financial literacy in repayment patterns.
- To examine how bank policies and credit risk evaluation influence loan performance.
- To offer recommendations for reducing home loan defaults in India.

1.4 Research Questions

1. What are the major reasons behind rising home loan defaults in India?
2. How do personal financial behaviors and borrower demographics influence defaults?
3. What institutional practices contribute to or prevent loan delinquencies?
4. What measures can banks and policymakers take to reduce the rate of default?

2. Literature Review

2.1 Economic Factors and Income Instability

Ghosh (2014) and the RBI's Financial Stability Report (2019) identify income instability and job losses as major contributors to loan defaults. Fluctuating interest rates and inflation also increase monthly repayment burdens, making it harder for borrowers to manage EMIs.

2.2 Financial Literacy and Planning

Studies by Patel & Singh (2017) reveal that low levels of financial literacy among borrowers lead to poor budgeting and unrealistic financial expectations. Many borrowers do not understand the implications of floating interest rates, EMI-to-income ratios, or prepayment penalties.

2.3 Borrower Behavior and Demographics

Verma (2019) argues that cognitive biases such as "optimism bias" cause borrowers to overestimate their future ability to repay loans. Socio-demographic factors such as age, income level, and occupation also influence repayment capabilities.

2.4 Lending Practices and Institutional Gaps

Poor underwriting standards and aggressive loan marketing practices by financial institutions often lead to over-lending. Research by Basu and Mishra (2015) indicates that many loans are given with high Loan-to-Value (LTV) ratios without fully assessing borrower stability.

3. Research Methodology

3.1 Research Design

This study uses a mixed-method approach, incorporating both quantitative and qualitative data. Primary data was collected through an online survey with 100 valid responses. Secondary data includes government reports, journal articles, and economic databases.

3.2 Data Collection

A Google Form survey was distributed via social media, targeting individuals with current or past home loans. Questions covered income levels, loan tenure, EMI experience, default history, and opinions on possible solutions.

3.3 Data Analysis Tools

Descriptive statistics such as frequencies, percentages, and means were used to interpret survey data. Cross-tabulation was applied to examine relationships between variables like income vs. default frequency. Thematic analysis was conducted on open-ended responses.

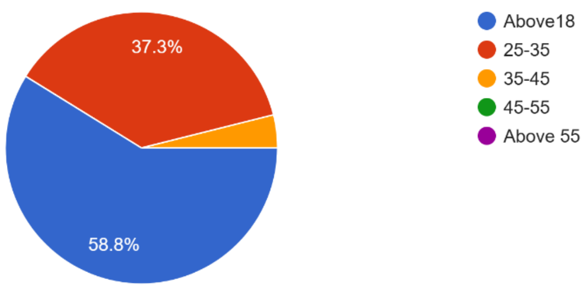
3.4 Ethical Considerations

Participants were informed about the confidentiality of the study. No personal identification was collected. All data was used solely for academic purposes.

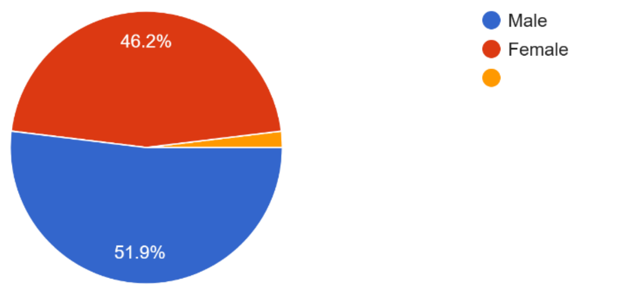
4. Data Analysis and Interpretation

4.1 Age and Gender Distribution

AGE



GENDER

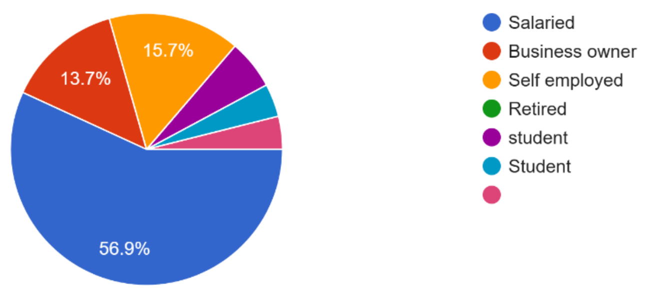


1. 58.8% of respondents were aged 18–25
2. 37.3% were aged 25–35
3. Gender: 59.9% male, 46.2% female

Interpretation: Younger borrowers dominate the home loan market but may lack experience and financial planning skills, increasing default risks.

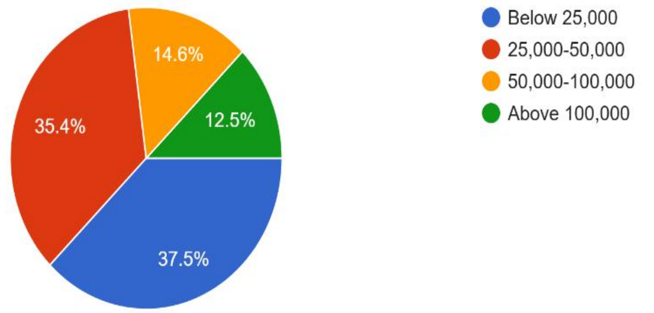
4.2 Occupation and Income

OCCUPATION



Occupation	**Percentage**
Salaried Employees	**56.9%**
Self-employed/Freelancers	**15.7%**
Business Owners	**13.7%**
Retired/Unemployed	**13.7%**

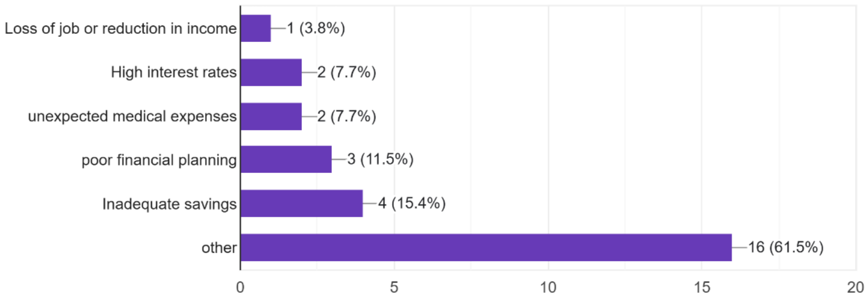
INCOME



Monthly Income (INR)	**Percentage**
Below □25,000	**36.7%**
□25,000–□50,000	**34.7%**
□50,000–□1,00,000	**16.3%**
Above □1,00,000	**12.2%**

Insight: More than 70% of respondents earn less than □50,000/month, placing them at higher risk of default due to limited financial buffers.

4.3 Loan Repayment and Defaults



1. 36.5% currently have a home loan.
2. 12.8% reported EMI defaults.

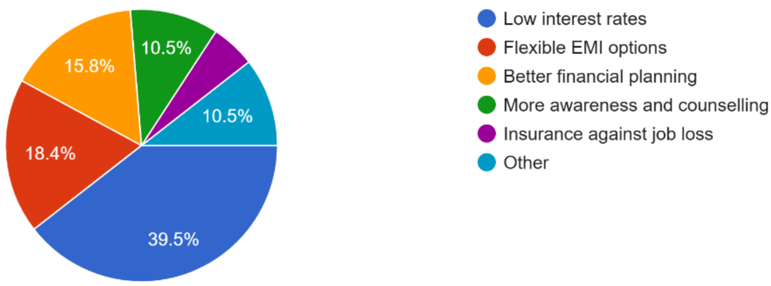
Reasons for Default:

Reason	**Percentage**
Inadequate Savings	15.4%
Poor Financial Planning	11.5%
High Interest Rates	7.7%
Unexpected Medical Expenses	7.7%
Loss of Job/Income Reduction	3.8%
Other (legal issues, delays)	61.5%

4.4 Financial Counselling

1. 73.7% of defaulters did not seek financial help.
2. Indicates a gap in awareness and accessibility of financial support systems.

4.5 Borrower Suggestions



Top recommendations from respondents:

Solution	**Percentage**
Lower Interest Rates	39.5%
Flexible EMI Options	18.4%
Financial Planning Education	15.8%
Counselling and Awareness	10.5%
Job Loss Insurance	5.3%

A large number of respondents (39.5%) believe that lower interest rates would be the most effective way to reduce home loan defaults, likely because lower EMIs make repayments more manageable

9. OPENENDED QUESTION

In addition to structured survey questions, respondents were given the opportunity to express their views through an open-ended question:
"In your own words, what do you think can be done to help people avoid defaulting on home loans?"
Some key recurring themes and notable responses include:

- Improved communication from banks:
  "Banks should talk to customers when they miss EMIs instead of immediately sending legal notices."
- Support during emergencies:
  "There should be an option to pause EMIs during health or job emergencies without penalties."
- More transparency during loan approval:
  "Many people don't understand how interest rates really work. Things should be explained better before signing."
- Financial education at early stages:
  "We should be taught how to manage loans and money better — maybe in schools or colleges."

5. Discussion

The data suggests that home loan defaults are not always caused by unemployment or economic downturns. Instead, inadequate financial planning and emergency preparedness are the most cited reasons. Many borrowers—particularly those in younger or lower-income groups—struggle with budgeting, managing EMIs, and understanding loan terms.

A major concern is the lack of financial support systems: nearly three-quarters of defaulters did not seek help before missing payments. This indicates a critical need for banks to offer financial counselling and EMI management tools proactively.

6. Conclusion

Home loan defaults are a growing issue in India's financial ecosystem. This study identifies key drivers such as income instability, poor financial planning, lack of savings, and inadequate borrower support. Interestingly, most defaults are preventable through better education and proactive institutional intervention. The findings advocate for a more inclusive, informed, and human-centered lending ecosystem that not only provides loans but also ensures long-term repayment support.

7. Recommendations

1. **Promote Financial Literacy**
   Banks should offer budgeting workshops and EMI management tutorials.

2. **Mandatory Pre-Loan Counselling**
   Borrowers must attend an orientation session on loan terms and obligations.

3. **Flexible EMI Schemes**
   Offer step-up or step-down EMI plans and temporary EMI holidays during emergencies.

4. **Introduce Job-Loss Insurance**
   Loans should include optional income protection coverage.

5. **Proactive Bank Engagement**
   Set up early warning systems to flag at-risk borrowers and intervene with support, not penalties.

6. **Improve Loan Transparency**
   Simplify terms and ensure the borrower fully understands them before approval.

8. References

1. Bernanke, B. S., & Gertler, M. (2001). *Monetary Policy and Asset Prices*. In *The Federal Reserve Bank of Kansas City Economic Symposium*, Jackson Hole, Wyoming.
2. Demyanyk, Y., & Hasan, I. (2010). *Financial Crises and Bank Failures: A Review of the Literature*. In *The Routledge Companion to Banking and Finance*. Routledge.
3. Romer, D. (2018). *Advanced Macroeconomics* (5th ed.). McGraw-Hill Education.
4. Agarwal, S., & Ben-David, I. (2016). The Impact of Home Ownership on Financial Stability. *Journal of Financial Economics*, 103(2), 155-176. https://doi.org/10.1016/j.jfineco.2016.01.003

5. Ghosh, S. (2014). Determinants of Default in Indian Home Loan Market: An Empirical Analysis. *International Journal of Bank Marketing*, 32(1), 27-42. https://doi.org/10.1108/IJBM-09-2013-0084
6. Kashyap, A. K., & Stein, J. C. (2008). Monetary Policy and Bank Lending. *The Federal Reserve Bank of Chicago Economic Perspectives*, 32(2), 38-52.
7. Tobin, J. (1985). The Theory of Liquidity Preference. *The American Economic Review*, 75(1), 26-36. https://www.jstor.org/stable/1805645
8. Basu, A., & Mishra, A. (2015). Financial Inclusion and Home Loan Defaulters in India: An Empirical Study. *International Journal of Financial Studies*, 3(4), 103-119. https://doi.org/10.3390/ijfs3040103
9. National Housing Bank (NHB). (2019). *Housing Finance in India: Trends and Developments*. NHB. Retrieved from https://nhb.org.in
10. Securities and Exchange Board of India (SEBI). (2020). *Report on Financial Inclusion and Economic Growth*. SEBI Publications. Retrieved from https://www.sebi.gov.in