



# A STUDY ON CUSTOMER DECISION TOWARDS HOME LOAN IN BANKS

<sup>1</sup> Vinoth S, <sup>2</sup>Pavitha S

<sup>1</sup>Assistant Professor, <sup>2</sup>MBA Student,  
<sup>1</sup>MBA,

<sup>1</sup>MEASI Institute of Management, Chennai, India

**Abstract:** The set of considerations a customer makes before making a purchase is known as their consumer buying decisions. The consumer chooses what brand to buy, where to buy it, when to buy it, how much to buy, and other factors. Through marketing methods and stimuli that could affect how the consumer evaluates products, the marketer tries to sway each of these decisions. Home loans are a complicated commodity, and borrowers may run into a number of issues both before and after the loan process. Thus, an effort has been made to learn more about the customers' purchasing habits. A descriptive research design with a sample size of 130 consumers has been used for the study. Tamil Nadu's Chennai serves as the research area. The technique of random sampling has been applied. In terms of the several factors that affect the choice of bank, the following stand out: corporal efficiency, interest rate, procedural requirements and customer satisfaction.

## 1. INTRODUCTION

A home loan might be a huge financial help if you are strapped for cash or do not want to sell your investments. To achieve their dream of owning a home, people frequently turn to banks or housing finance companies for loans of this type. A home loan can help you realize your dream of buying a home because of the simple monthly payments and flexibility in choosing the loan length that best suits your needs.

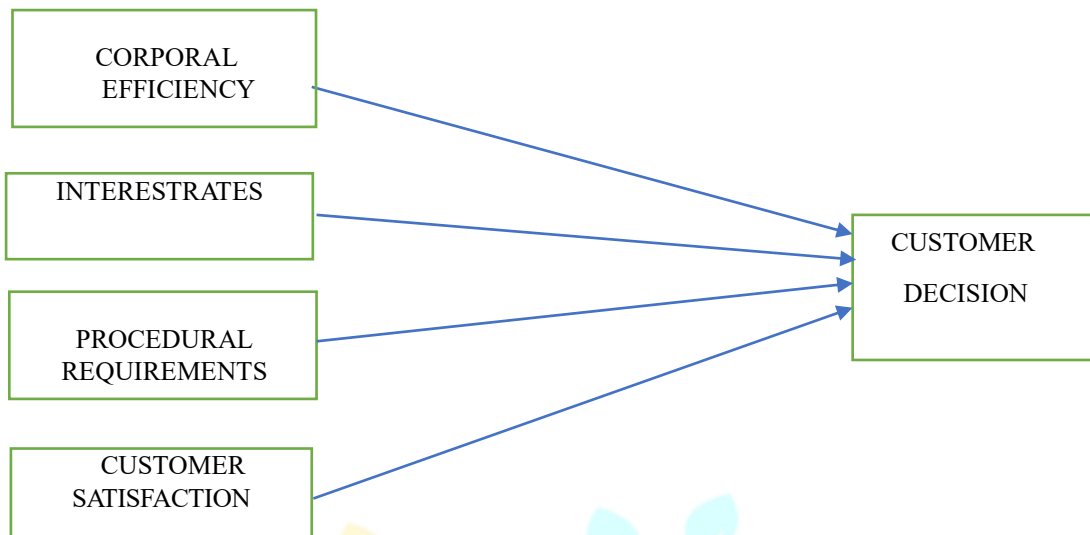
The set of decisions a consumer makes before making a purchase is referred to as a consumer's purchasing decision. The consumer decides where to shop, which brand to buy, when to shop, how much to spend, and other factors. Through marketing stimuli and methods that could affect the consumer's evaluation process, the marketer tries to sway each of these choices. Housing loans are a complicated commodity, and consumers may encounter a number of issues both during and after acquisition. An effort has been made to learn more about consumers' purchasing habits.

The Indian banking system has improved its methods for delivering goods and services as a result of improvements and innovations to its current frameworks. People's perceptions of being able to build the homes of their dreams have been impacted by the ongoing issues of maintaining and dealing with the fiscal regions, cash, budgetary markets, and trading (Bedi 2010). Consequently, non-banking financial institutions have been successful in gaining a firm hold over the customers and leveraging them with the availability of loans, serving financial needs of people, and fulfilling the dream of owning a home. Choosing the organization for a home loan depends on various factors and financial institutions vary in different aspects to offer loan to an individual. (Shamdasani et al 2008). A home loan has a considerably lower interest rate when compared to other alternative loan types. Additionally, in addition to the Banks examine the property from a legal aspect when you apply for a home loan to make sure The documentation are valid and the title is clear. By taking this step, you can avoid falling victim to fraud, and completing the due diligence will legitimize your property.

## 2. NEED FOR THE STUDY

The study on customer decisions regarding home loans in banks is crucial for several reasons. First and foremost, gaining insights into the factors influencing customer choices in this specific financial domain can significantly contribute to the refinement of banking strategies. As the home loan market in India continues to grow, banks must stay attuned to customer preferences and concerns to remain competitive. Understanding the nuanced criteria customers consider when opting for home loans, such as interest rates, repayment terms, and customer service, will enable banks to tailor their offerings more effectively. By delving into the decision-making processes of individuals seeking home loans, the study aims to identify potential pain points and areas of improvement. This knowledge can guide banks in streamlining their services, ensuring a smoother and more customer-centric experience for those navigating the complexities of home loan applications.

### 3. CONCEPTUAL FRAMEWORK



**Fig 1**

- H1: Corporal Efficiency has a significant impact on customer decision  
 H1: Interest rates has a significant impact on customer decision  
 H3: Procedural requirement has a significant impact on customer decision  
 H4: Customer satisfaction has a significant impact on customer decision

### 4. REVIEW OF LITRETURE

Abdul Ghafoor Awan and Maliha Azhar (2014) studied the relationship between bank selection criteria and customer satisfaction. And also, they are discussing religion, high profit and low service charges, service quality responsive attitude of staff that means corporal efficiency of bank personnel. The responsiveness of bank staff is a requirement of Islamic banking. Understanding the significance of the service provided by the bank staff is crucial. The provision of prompt customer service is a crucial instrument for elevating the bank staff's responsiveness to second place in the selection process. The staff aspect, in particular the personnel's friendliness, is a criterion of Islamic banking since it increases client satisfaction.

Hieu and Thanh (2020) studied how positive outlook will persuade clients to use your goods and services. The way bank employees treat their customers matters a lot. To assist clients in finding solutions to their difficulties, staff members must comprehend their needs and speak in plain terms. As a result, when interacting with the bank's staff, consumers may feel more friendly. Additionally, the public will perceive a shift in the bank's attitude toward its clients and the general public if the staff adopts a more positive outlook. Caring and responsible employees who affect the consumer's decision to choose Islamic banks. The personnel should be able to effectively and correctly explain Islamic banking to the general public, as this will aid in establishing long-term client relationships.

Calza (2003) emphasized on interest rate of lending for customer decision on home loan, First, interest rates on loans. Lower interest rates lower the cost of borrowing, which boosts demand for bank loans. The factors influencing loans to the private sector in the euro region are examined in this article. The study finds one cointegrating relationship among real loans, GDP, and interest rates using the Johansen methodology. According to this relationship, real loans are long-term favorably correlated with real GDP and long-term negatively correlated with real short-term and long-term interest rates.

Mansour (2019) identified the determinants of the bank selection by Sudanese bank customers. The primary findings that Corporal Efficiency is the most significant factor that has affected the customer's selection decision. Bank marketing initiatives, convenience, and service performance are viewed as other essential aspects. There is a dearth of research in Sudan on the variables that influence consumer bank selection. In that regard, this study makes a contribution. Therefore, banks in Sudan must seek to improve their corporal efficiency, which is important for meeting customer needs and impacting the competitiveness of the bank.

Sughana and Sheela (2021) focused to analyse the influence of location, promotions and procedural requirements. in Multipurpose loan to take credit in bank. And they compared to most offices that are not close to the regional government's area office, a multipurpose loan portfolio is large. Therefore, the customer's decision to take out multiple-purpose loans will also be influenced by this location. To get credit facilities, a consumer must successfully complete a credit procedure. The varying credit policies for payroll and non-payroll clients have an impact on the customers' interest in taking out loans for various purposes.

### 5. SAMPLING METHODOLOGY

A sampling method is a procedure for selecting sample members from a population. Non probability sampling technique was used in the study for selecting the samples.

### 5.1 Population

The population for the study is the customers of banks consists of all elements, individuals and units that meet the selection criteria for a group to be studied and from which are representative samples taken for detailed examination. The total of the population is called as Universe.

### 5.2 Sampling frame

In statistics, a sampling frame is the source material or device from which a sample is drawn. It is a list of all those within a population who can be sampled, and may include individuals, households or institutions. The sampling frame for the present study are individuals, students, self-employed, businessman and corporate customers of bank. The sample size taken for the study is 130 samples.

### 5.3 Data Collection

Survey method of data collection was used in this study. A survey is a research method for collecting information from a selected group of people using standardized questionnaire or interviews. While many people think of a questionnaire as the survey, the questionnaire is just one part of the survey process.

Collections of data include both primary and secondary data. The researcher has collected both of the above data. The data collected for the projects comprises of

- Primary data
- Secondary data

#### Primary data:

By using a systematic questionnaire to conduct the survey, data from primary sources have been gathered.

#### Secondary data:

Data from secondary sources have been gathered from the business's published and unpublished records. Journals, Articles like Google Scholar, j gate, EBSCOhost and other sources have also been used to acquire secondary data.

#### Data Collection Instrument

A well-structured questionnaire was used for the data collection process.

#### Questionnaire

List of specific or survey questions intended to elicit certain information from respondents. It accomplishes four fundamental goals: 1) gather relevant data, 2) make data comparable, and 3) make data analysis-friendly. 4) To make questions interesting and varied.

### 5.4 Statistical Tools

The statistical tools are used for the study are

- One Way ANOVA
- Chi-square test
- Correlation
- Multiple Linear Regression

## 6. DATA ANALYSIS

### 6.1 One-way ANOVA Test – Income level and Corporal Efficiency

**Null Hypothesis (H<sub>0</sub>):** There is no significant difference between income level and corporal efficiency.

**Alternate hypothesis (H<sub>1</sub>):** There is significant difference between income level and corporal efficiency.

Table 1: ANOVA

ANOVA					
Corporal_Efficiency					
	Sum Of Squares	Df	Mean Square	F	Sig.
Between Groups	120.540	3	40.180	3.039	.032
Within Groups	1666.083	126	13.223		
Total	1786.623	129			

P<0.05

Reject null hypothesis

**Inference:** There is significant difference between income level and corporal efficiency.

**Interpretation:** Respondents have various income group had influence in perception towards corporal efficiency.

### 6.2 Chi Square Test - Income level and reason for taking home loans.

**Null Hypothesis (H<sub>0</sub>):** There is no significant association between income level and reason for taking home loans.

**Alternate hypothesis (H<sub>1</sub>):** There is significant association between income level and reason for taking home loans.

Table 2: Crosstab

	Reason for taking Home loan						
	For new construction	For renovation	For house expansion and extention	For purchase of house	Others		
Income level	Less than 25000	Count 41	Count 8	Count 11	Count 14	Count 22	Count 96
		Expected Count 35.4	Expected Count 11.8	Expected Count 11.8	Expected Count 15.5	Expected Count 21.4	Expected Count 96.0
	25000 to 50000	Count 7	Count 8	Count 3	Count 6	Count 5	Count 29
		Expected Count 10.7	Expected Count 3.6	Expected Count 3.6	Expected Count 4.7	Expected Count 6.5	Expected Count 29.0
	50001 to 100000	Count 0	Count 0	Count 2	Count 1	Count 2	Count 5
		Expected Count 1.8	Expected Count .6	Expected Count .6	Expected Count .8	Expected Count 1.1	Expected Count 5.0
Total		Count 48	Count 16	Count 16	Count 21	Count 29	Count 130
		Expected Count 48.0	Expected Count 16.0	Expected Count 16.0	Expected Count 21.0	Expected Count 29.0	Expected Count 130.0

P&lt;0.05

Reject null hypothesis

**Inference:** There is significant association between income level and reason for taking home loans.**Interpretation:** Respondents with monthly income of less than 25000 take loan for new construction, respondents 25000 to 50000 take loan for renovation, respondents having monthly income of greater than 50000 availed home loan for more expansion and extension.

### 6.3 Correlation – Relationship between Independent variables

**Null Hypothesis (H0):** There is no significant association between independent variables.**Alternate hypothesis (H1):** There is significant association difference between variables.

Table 3: Correlations

		Corporal efficiency	Interest rates	Procedural requirements	Customer satisfaction
Corporal efficiency	Pearson Correlation				
	Sig. (2-tailed)		.000	.000	.000
	N	130	130	130	130
Interest rates	Pearson Correlation				
	Sig. (2-tailed)	.000		.000	.000
	N	130	130	130	130
Procedural requirements	Pearson Correlation				
	Sig. (2-tailed)	.000	.000		.000
	N	130	130	130	130
Customer satisfaction	Pearson Correlation				
	Sig. (2-tailed)	.000	.000	.000	
	N	130	130	130	130

P&lt; 0.05

Reject null hypothesis

**Inference:** There is significant association difference between variables.**Interpretation:**

- There is moderate positive correlation between corporal efficiency and interest rates (0.559)
- There is moderate positive correlation between corporal efficiency and procedural requirements (0.624)
- There is moderate positive correlation between corporal efficiency and customer satisfaction (0.638)
- There is moderate positive correlation between interest rates and procedural requirements (0.594)
- There is moderate positive correlation between interest rates and customer satisfaction (0.527)
- There is moderate positive correlation between procedural requirements and customer satisfaction (0.816)

#### 6.4 Multiple Linear Regression – Effect of Corporal efficiency, interest rates, procedural requirements and customer satisfaction on customer decision.

To compare whether the corporal efficiency, interest rates, procedural requirements, and customer satisfaction on customer decision.

**H1:** Corporal Efficiency has a significant impact on customer decision

**H2:** Interest rates has a significant impact on customer decision

**H3:** Procedural requirement has a significant impact on customer decision

**H4:** Customer satisfaction has a significant impact on customer decision

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. Change	
1	.859 <sup>a</sup>	.738	.730	1.996	.738	87.976	4	125	.000	2.179

**Interpretation:** The multiple linear regression analysis revealed a significant overall prediction of the customer decision by the combination of predictors, X1, X2, X3, and X4 ( $F(4, 125) = 87.976, p < .001$ ). The model accounted for a considerable proportion of the variance in customer decision ( $R^2 = .730$ ). Among the predictors, X4 ( $B = .486, p < 0.01$ ) and X1 ( $B = .152, P < .001$ ) demonstrated statistically significant relationships with customer decision, while X2 ( $B = 0.086, p > 0.05$ ) and X3 ( $B = 0.086, p > 0.05$ ) did not contribute significantly. This analysis suggests that corporal efficiency X1, interest rates X2, procedural requirements X3, customer satisfaction X4 independently influence customer decision with X1 and X4 showing positive while X2 and X3 showing a negative relationship with the outcome.

$$Y = 0.326 + 0.152(X1) + 0.086(X2) + .086(X3) + 0.426(X4)$$

#### 7. FINDINGS

- Most (55.4%) respondents are female customers.
- Majority (50%) of the respondents are having an age group of less than 25 years.
- It was found that (73.8%) of the respondents were earning Less than 25000 as a income.
- Most of the respondents (57.7%) are single.
- It was observed that (33.1%) majority of the respondents are salaried people.
- Most of the respondents (66.9%) their size of the family is 4-6.
- It was found that majority of the respondents (41.5%) are under graduated.
- From this study it was inferred that (44.6%) of the respondents having experience as a customer of bank for less than 2 years.
- Majority (50%) of the respondents prefer other type of loans.
- Most (62.3%) of the respondents are categorized as a non-elite customer.
- It was found that (36.9%) of the respondents preferred taking home loan for new construction.
- It was inferred that (73.8%) of the respondents were preferred monthly mode of instalments.
- The respondents say that low interest rate is the most important reason whereas terms and conditions is the least important for choosing home loan.
- The respondents say that more processing time is the most important reason where as more down payment is the least important for taking loan.
- Elite and Non-Elite customer have difference in perception towards customer decision
- Respondents have various income group had influence in perception towards corporal efficiency.
- Respondents with monthly income of less than 25000 take loan for new construction, respondents 25000 to 50000 take loan for renovation, respondents having monthly income of greater than 50000 availed home loan for more expansion and extension.
- Respondents with monthly income of less than 25000 choosing mode of instalments for monthly respondents 25000 to 50000 choosing monthly mode, respondents having monthly income of greater than 50001 to 100000 are also choosing monthly mode.
- Customer satisfaction and corporal efficiency are significant predictors of customer decision.

#### 8. SUGGESTIONS

- The bank should create awareness by advertising through digital marketing to attract more customer.
- The bank should invest in technology on providing accurate information about home loans as well as home loans.
- The bank shall hire more employees to speed up the documentation, verification process.
- The bank should increase their efficiency of their work to attract more customers.
- The bank shall enhance the staff performance to deliver the services at the appropriate time without any delay.
- The bank shall provide prompt information about the current updates of the services to the customers.

- The bank shall respond effectively for the queries of the customers by properly training their staffs.

## 9. CONCLUSION

To sum up, the research on consumer choices for house loans presents a number of significant conclusions. It draws attention to the important variables that affect consumers' decisions, like interest rates, loan conditions, credit ratings, and lender reputation. The study also implies that the use of internet and digital technologies is essential while making decisions. By being aware of these variables, customers and lenders alike may make better educated decisions about house loans, which will ultimately strengthen and increase competition in the mortgage market. It will be crucial to conduct additional research and market analysis in order to adjust to changing consumer tastes and financial circumstances.

Numerous factors influence the decisions made by consumers in banks about home loans. These variables include interest rates, loan terms, loan amounts, qualifying requirements, processing costs, and the bank's standing. The amount of the EMI (Equated Monthly Installment), prepayment alternatives, and the simplicity of the application and verification processes are other factors that Indian consumers frequently take into account.

In addition, government initiatives like the Pradhan Mantri Awas Yojana (PMAY) and tax breaks for house loans have a big impact on what consumers decide. Another important factor for consumers to think about is whether to choose a fixed or fluctuating interest rate, as well as the pros and downsides of each. Before making a decision, customers should do extensive research, evaluate products from several banks, and consult a professional.

## REFERENCES

- [1] Abdul Ghafoor Awan, & Maliha Azhar. (2014). Consumer behaviour towards Islamic banking in Pakistan. *European Journal of Accounting Auditing and Finance Research*, 2(9), 42-65.
- [2] Ali, H. (2019). Purchase decision and repurchase models: product quality and process analysis (case study of house ownership credit financing in Permata Sharia Bank Jakarta). *Scholars Bulletin*, 5(9), 526-535.
- [3] Bedi, M. (2010). An integrated framework for service quality, customer satisfaction and behavioural responses in Indian banking industry – a comparison of public and private sector banks, *Journal of Services Research*, 10(1), 157–172.
- [4] Calza, A., & Sousa, J. (2003). Why Has Broad Money Demand Been More Stable in the Euro Area Than in Other Economies?: A Literature Review.
- [5] Chepukaka, Z. K., & Kirugi, F. K. (2019). Service Quality and Customer Satisfaction at Kenya National Archives and Documentation Service, Nairobi County: Servqual Model Revisited. *International journal of customer relationship*. 7(1).
- [6] Hieu, V. M., & Thanh, T. N. (2020). Determinants Of The Bank Choices In Loan Purchase Of Individual Customers-An Empirical Study In Ho Chi Minh City, Vietnam. *Journal of Critical Reviews*, 7(8).
- [7] Kaynak, E., & Harcar, T. D. (2005). American consumers' attitudes towards commercial banks: A comparison of local and national bank customers by use of geodemographic segmentation. *International Journal of bank marketing*, 23(1), 73-89.
- [8] Mansour, I. H. F. (2019). Determinant factors of consumers' bank selection decision in Sudan. Available at SSRN 3480475.
- [9] Rashid, M., & Hassan, M. K. (2009). Customer demographics affecting bank selection criteria, preference, and market segmentation: study on domestic Islamic banks in Bangladesh. *International journal of Business and Management*, 4(6).
- [10] Shamdassani, P., Mukherjee, A. & Malhotra, N. (2008), Antecedents and consequences of service quality in consumer evaluation of self-service internet technologies, *The Service Industries Journal*, Vol (28) .117–138

