Determinants of Home Loan Decisions- Key Influencing Factors

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ABSTRACT:

Home loans play a major role in India to improve the standard of living, particularly forth economically weaker sections and the middle economic class society. Housing, being one of the basic needs for human, takes the major chunk of one's income. Home loans came as a boon to people, who dreams of owing a house, even at the very early stage of one's life. Home loan decisions are largely influenced by various factors including service quality, convenience, interest rates etc., With banks becoming more competitive and extending exclusive services for customers is the key to attract them, this paper analyses the determinants and the satisfaction level of home loan customers of SBI. Through a survey with a structured questionnaire, this project investigates the factors affecting their loan purchase decision based on various demographic factors. Ease in installments, monetary benefits, easy installments are the crucial factors in home loan decision making. At SBI, both have average rating due to more competition in the market. The paper also explains the customer satisfaction level and the willingness of customers to recommend SBI home loans to others. The study not only evaluates the various factors affecting customer preferences, but also provides insights in to enhancing customer experience to increase satisfaction and loyalty in this competitive banking industry.

Key Words: Customer Satisfaction, Buying Decision, Services, Home Loans.

INTRODUCTION

Owning a home is a cherished aspiration for many, especially in India where it symbolizes not just shelter but also prosperity and security. In everyone's life, there is a phase at which one has to make an important financial decision of buying a house. Home loans have made this dream attainable even for those with modest means. Consequently, understanding the factors driving home loan purchase decisions is of paramount importance. Owning a house is not just to recide , it remains as an asset for even the next generation. As the income of people has increased and so the standard of living, many countries are facing a lack in infrastructure to provide housing facilities.[i]This has also altered the priority of factors affecting the selection of homes and the financial schemes. According to Savills India, from Jan- Mar 2023 quarter, there is a huge increase in demand of luxury residential market by 151% year-over-year. In the financial year, Indian residential market has reached an all time high with a 36% rise , indicating a strong growth trajectory.

In recent years, the Indian home loan sector has emerged as a powerhouse within the nation's economy. In 2022, home loans made a significant contribution, accounting for 11.7% of the country's GDP, a statistic that is poised to escalate even further, with expectations indicating a growth to 13% by 2025. This substantial contribution highlights the pivotal role that home loans play in not only fulfilling the dreams of homeownership but also in driving economic growth by bolstering the real estate and construction industries.

Leading the charge in this dynamic landscape is the State Bank of India (SBI), which has embarked on an aggressive expansion strategy aimed at bolstering its home loan portfolio. SBI's proactive approach is evident in its offering of a substantial concession of 65 basis points to customers with credit scores below 750, a move that not only demonstrates a keen commitment to capturing a diverse customer base but also reflects the bank's adaptability in catering to the evolving needs of borrowers.

The remarkable surge in home loan disbursements in India further underscores the sector's vibrancy. Disbursements have soared from INR 4 trillion in 2019 to a staggering INR 6.41 trillion as of March 2023, showcasing the growing appetite for home ownership among the Indian populace. This substantial increase in disbursements has not only boosted the housing sector but has also contributed significantly to the overall economic expansion.

Moreover, Dinesh Kumar Khara, Chairman of SBI, emphasizes that the outlook for credit growth remains promising. Khara notes that there is a clear visibility of growth in the coming year, supported by encouraging demand in both retail and corporate segments. SBI's anticipatory approach is indicative of the broader macroeconomic trends, and the bank aims to sustain a credit growth rate of 14-16% while expanding its Net Interest Margin (NIM) in the fiscal year 2024. This commitment underscores SBI's pivotal role in shaping the Indian home loan landscape and its dedication to facilitating homeownership while contributing to the nation's economic development.

This study focuses on discerning these determinants, with a special emphasis on service quality and convenience. Amid stiff competition in the banking sector, where banks vie for borrowers, this research examines what drives individuals to choose a particular financial institution for their home loans. By unraveling these key determinants, this study not only sheds light on the preferences of home loan customers but also provides valuable insights that can aid financial institutions, such as SBI, in tailoring their products and services to meet the evolving needs of the market.

LITERATURE REVIEW

Numerous studies in the field of banking services have explored the multifaceted factors that influence consumer decisions, shedding light on the dimensions that shape choices regarding home loans.

These studies collectively emphasize the pivotal role of service quality in the decision-making process. Factors such as knowledge, readiness of staff in quick response, service variety, and ease of use have been identified as crucial determinants of service quality, highlighting its significance in influencing customer perceived value and subsequent word-of-mouth recommendations. When it comes to service quality, the employees and their responses play a major role. The service quality is decided by the employees' level of willingness to respond to customer queries and to help them without any delays and hesitation. Such services have a greater impact on customer satisfaction.[ii] Banks which are providing individual attention to the customers tend to increase the level of customer satisfaction. When customers are satisfied with the way that the employees try to solve their issues, a huge positive shift occurs in the level of satisfaction of customers/consumers. While analyzing literature, there found many studies that proved that the competencies of bank employees have a strong positive impact on satisfaction levels of customer.[iii],[iv]. To manage people at work, we need to have the best human skills at workplace ie for employees.It is possible only if employees know the products well and will be willing to help immediately without hesitation.

When we consider the reference groups and their recommendations in making home loan decisions, family members play a major role.[v]Additionally, convenience emerges as a positive influencer of perceived value, which, in turn, has a statistically significant impact on recommendations through word-of-mouth. This underscores the relev nce of service quality, convenience, and perceived value as vital components in home loan purchasing behavior[vi] Interest rates and installment factors have consistently emerged as influential elements in customers' decision-making processes[vii]. Research has shown a preference for fixed interest rates and a recognition of low interest rates as significant factors in selecting financial institutions for home loans[viii]

Further investigations reveal the importance of attributes such as easy accessibility, institution reputation, and attractive schemes in shaping customer preferences[ix],[x]. Apart from these, the ability to promptly respond to customers' queries and provide timely service, as well as empathy and assurance in customer interactions, are also the important factors that significantly have influence on customer /consumer satisfaction and, consequently, decision-making.[xi]

Moreover, a study assessing quality of service in private banks and its impact on customer/consumer satisfaction, through regression analysis, further highlights the critical role of quality of services provided as a determinant of customer/consumer satisfaction in the banking sector[xii]. All banks are in competition to provide the best services to attract and satisfy clients.[xiii] Apart from services, there is a correlation/relationship which is strong and positive between financial benefits and customer/consumer satisfaction. Customers compare the interest rates and other benefits before finalising a bank for taking home loans[xiv]. Thus, competitive interest rate is having a positive impact on customer satisfaction[xv].

Many times affordability is important to decide on getting home loan finance. Depending on the income and expenditure of households, the decision of home loans are taken.

However, despite the extensive research on these factors, a research gap exists in understanding how these determinants specifically affect the home loan purchasing/ decision making behavior of customers, especially in the context of the State Bank of India (SBI) in Ahmedabad and Gandhinagar region of Gujarat, India. Therefore, this research study tries to fill the scientific gap by examining these factors in the specific context of home loans from SBI.

Fig 1 represents the conceptual/theoritical model for this study showing the direction of impact of six factors on customer/customer satisfaction. The factors considered are service quality, ease of processing, monetary benefits, affordable interest rates and easy installments. The study further analysed the influence of customer satisfactin on the readiness to recommend the product to others.
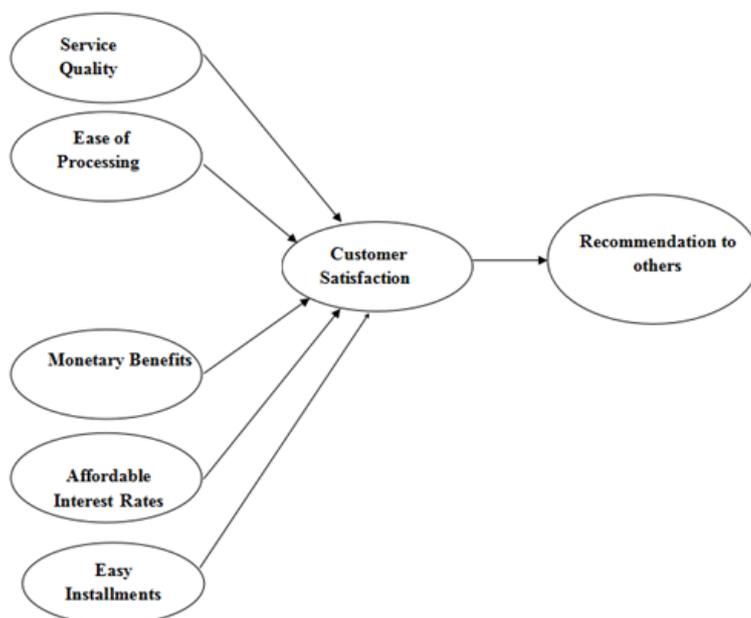

Fig 1: Conceptual Framework

The hypotheses studies for this research are as follows:

H1: There is a significant correlation between quality of services provided (H1a), ease of processing (H1b), reference group influence (H1c), monetary benefits (H1d), affordable interest rates (H1e) ,easy installments (H1f) and customer satisfaction

H2: There is a significant correlation between customer/consumer satisfaction and willingness to recommend the products to others.

H3:Demographic variables affect customer decision to take a home loan.

RESEARCH METHODOLOGY

The research involved 218 SBI customers who had availed home loans, with a final selection of 200 participants after screening for completeness and reliability of responses. This sample size provides a robust foundation for statistical analysis. The study was conducted in the Ahmedabad and Gandhinagar regions of Gujarat, India, offering regional context to the research findings. To gauge customer perspectives, Likert scale with five point scale from strongly disagree to strongly agree was employed in a questionnaire-based survey. The demographic parameters/factors/variables considered in this study are age, gender, education, occupation and income. As mentioned in the literature review, six variables which have an influence on customer satisfaction were considered for this study. Under the service quality variable, factors like employee quickness in services, clarity in communication, employee competence etc., were considered. Under convenience variable, easy of documentation, timeline, convenient process etc, were added. To measure the monetary benefits, service fares, processing fees etc., were considered. To measure affordable interest rates, the statements include being competitive, consistency and affordability of interest rates were added. To measure easy installments, factors like affordability, flexibility in payment system were asked. The majority of the factors and the statements are taken from a research study conducted in Greece to understand and measure the significance of factors affecting thev purchase decision of Greek customers taking bank loans.[xvi]The collected data was then used for analysis through tests, including T-test, ANOVA (Analysis of Variance), and regression analysis. These statistical methods were chosen for their suitability in assessing the relationships among key factors considered in this study.

Data Analysis:

The factors affecting consumer satisfaction and the depth of consideration of those factors may differ according to the demographic profile of customers. Some may consider service quality as the prime criteria for deciding banks for home loans, while some may consider affordable interest rates as prime factor for home loans. Such factors may differ among different age group, income group, gender etc., so, to analyze the same, few demographic variables are considered in this study. They are gender, age, education, occupation and income. The following table 1 represents the frequencies of various categories under demographic profile.

Demographic variables		Frequency	Percent
Gender	Female	56	28
	Male	144	72
Age group	Below 33	17	8.5
	33-40	70	35
	41-50	86	43
	Above 50	27	13.5
Education	SSC	13	6.5
	HSC	47`	23.5
	Graduate	92	46
	Post graduate	48	24
Occupation	Self Employed	46	23

	Govt. Employee	58	29
	Private Employee	55	27.5
	HouseWife	41	20.5
Income	30000-45000	30	15
	45001-60000	78	39
	60001-75000	46	23
	Above 75000	46	23

Table1: Demographic Variables

To measure the model fitness which is mentioned in the conceptual framework and to analyze the level of impact of six variables that are considered in this study on customer/consumer satisfaction, multiple linear regression test was employed. Using SPSS, the test was carried out. Before conducting the test, the variables were subjected to reliability test. Cronbach alpha reliability test was used. A value more than 0.7 is considered as reliable, according to various studies. Some studies, to be more precise, insist on a value of above 0.8.[xvii]. There was different statement used ot measure the six variables. Using compute variable option in SPSS, the mean of all those statements were done for each variable and a common mean value was derived for each. These values were used for all the test to measure the association and level of impact.

Variables	Cronbach Alpha	Total Number of items
Service quality	0.773	7
Ease of Processing	0.607	4
Monetary benefits	0.674	4
Affordable Interest Rates	0.609	3
Easy Installments	0.669	3

Table 2: Reliability Test

As there are several studies which link service quality and customer satisfaction[xviii]; ease of processing, low rates etc., and customer satisfaction[xix], a regression equation to test the same is as follows.

$$Y=b_0+b_1S+b_2P+b_3M+b_4I_1+b_5I_2$$

Where b_0,b_1,b_2,b_3,b_4,b_5 are constants. S is service quality, P is ease of processing, M is monetary benefits, I_1 is affordable interest rates and I_2 is easy installments.

The results of multiple/multilinear regression is used to measure the relationship between satisfaction of customers and the factors affecting the same is given below. R and R square explain the total correlation and the total variance, that can be described by independent variables. The regression value generally varies from 0 to 1. The more it is near 1, the stronger and better is the linear relationship.[xx]. In this research study, the R value is 0.715 and so the model is considered as fit and the 51.2% of variance of dependent variable is described by the independent variables.

Regression Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.715[a]	.512	.499	.458
a. Predictors: (Constant), easyinstallments, easeofprocessing, affordableinterestrates, servicequality, monetarybenefits				
b. Dependent Variable: customer/consumer satisfaction				

Table 3: Regression model and summary

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	42.565	5	8.513	40.662	.000[b]
	Residual	40.615	194	.209		
	Total	83.180	199			
a. Dependent Variable: customersatisfaction						
b. Predictors: (Constant), easyinstallments, easeofprocessing, affordableinterestrates, servicequality, monetarybenefits						

Table 4: Regression ANOVA result

To test the acceptability of null hypothesis, we require F test that is identified through variance analysis in the ANOVA table above. From the data in the above table, it can be determined that the value of the F is 40.662 for the variance generated by the regression. As the P value is below 0.01, the regression model is fit and the correlation between the factors /variables considered for finalising home loan and customer/consumer satisfaction is at a significant level.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.293	.290		-1.011	.313
	servicequality	.225	.070	.191	3.191	.002
	easeofprocessing	.231	.069	.204	3.346	.001
	monetarybenefits	.252	.080	.202	3.156	.002

affordableinterestrates	.164	.071	.141	2.303	.022
easyinstallments	.274	.077	.225	3.541	.000
a. Dependent Variable: customersatisfaction					

Table 5: Regression Coefficients

Based on the unstandardized coefficients for interpretation of results, we obtain the equation for regression as follow:

$$Y = -0.293 + 0.225S + 0.231P + 0.252M + 0.164I_1 + 0.274I_2$$

Where Y denotes customer/consumer satisfaction (dependent variable for this study), S = Service quality, P = Ease of Processing, M = Monetary benefits, I_1 = affordable interest rates, I_2 = easy installments

In this study, the unstandardized coefficient (B) = -0.293 represents the estimated customer satisfaction score when the other variables used to measure the satisfaction level ie the dependent variable carry a value of zero. Though this constant is not significant, it is considered as the overall fit of the model is good with significant P value. The equation further explains the level of impact that each factor has on customer satisfaction. After analysing the regression coefficients, it can be concluded that Ease of installments, monetary benefits and ease of processing play a major role in deciding the banks for taking home loans and thereby ending up in customer satisfaction. Interestingly affordable interest rates take a back seat in deriving customer satisfaction, The equation further demonstrates that customer satisfaction rises by 0.225 times for one unit rise in quality of service; 0.231 times for every one unit increase in Ease of Processing; 0.252 times for every one unit increase in monetary benefits; 0.274 times for every one unit rise in easy installments; and at last 0.164 times for every one unit increase in affordable interest rates. All the above factors and their regression coefficients to measure customer satisfaction attain statistical significance with P value lesser than 0.05.

Dimensions/ Demographic factors	Gender	Age	Education	Occupation	Income
Service Quality	0.373	0.375	**<.001**	**0.023**	**0.002**
Ease of Processing	0.111	0.561	**<.001**	0.203	**<.001**
Monetary benefits	0.35	0.646	**<.001**	0.382	**<.001**
Affordable Interest Rates	0.771	0.417	**0.029**	0.858	**<.001**
Easy Installments	0.631	0.071	**<.001**	0.224	**<.001**

Table 6: P values of T Test and ANOVA

Marketers need to find out the differences in mean values of various factors that are used to assess customer satisfaction. This helps them to understand the amount of effect of all demographic variables considered in this study on different factors used to measure the dependent variable. The above table shows the results of independent students T test and ANOVA on the variables considered in this study. Its interesting to know that the demographic variables education and income have a significant effect on the factors considered. The satisfaction level of the factors differs among people with different educational background and income. The P values of both this demographic groups for all the variables remain below 0.01. The highly educated group is more agreeing towards the effect/impact/influence of the above-mentioned factors on customer satisfaction than the less educated group. The less educated group feels that the influence/impact of the factors on the levels of

consumer/customer atisfaction is lesser. In the similar way, the high-income group agrees that the factors considered has a influence/impact on customer satisfaction, whereas the low income group feels that the impact is lesser. When it comes to gender as demographic variable, irrespective of gender, all have moderate acceptance towards the impact of factors on customer satisfaction. Similarly, irrespective of the age group, all have moderate acceptance towards the impact of factors on customer satisfaction. There are only mild differences in the mean values. When it comes to occupation, the Government employees seems to be have slightly higher acceptance on the influence/impact/effect of factors on customer satisfaction than the other sector employees.

Correlations			customersatisfaction	reommendationtoothers
Spearman's rho	servicequality	Correlation Coefficient	.492**	.539**
	easeofprocessing1	Correlation Coefficient	.523**	.550**
	monetarybenefits	Correlation Coefficient	.530**	.551**
	affordableinterestrates	Correlation Coefficient	.460**	.435**
	easyinstallments	Correlation Coefficient	.530**	.466**
	customersatisfaction	Correlation Coefficient	1.000	.718**
	reommendationtoothers	Correlation Coefficient	.718**	1.000
**. Correlation is significant at the 0.01 level (2-tailed).				

Table 7: Correlation Coefficients.

The above table explains the spearman correlation results done using SPSS. It helps to measure the level of association and its strength between the given variables and customer satisfaction. It also shows the direction in which the relationship exists. Normally, the results of correlation range from -1 to +1. The value nearing -1 demonstrates a strong negative correlation and a value nearing +1 demonstrates a strong positive correlation. In this research, the correlation between the variables service quality(.492), easy of processing(.523), monetary benefits(.530), affordable interest rates(.460), easy installments(.530), and customer satisfaction. This proves that there is a moderate significant positive correlation between them. An increase in the unit of anyone variable will result in a better, increased customer satisfaction. Similarly, there exists a moderate correlation between the variables and the willingness to recommend the product to others. But the correlation between customer/consumer satisfaction and customer willingness to recommend the services to others.(rho value=0.718). This indicates that higher or more the satisfaction of customers, higher or more will be the customer willingness to recommend the products/services to others.

Ranks	
Parameters	**Mean Rank**
Clarity in in understanding the installment structure	**20.50**
The interest rates offered by SBI are competitive	**18.39**
Affordable monthly instalments	**17.83**
Employee's quickness in answering queries	**16.82**
Low processing fees	**16.72**
Responsiveness to customers needs	**15.14**
Clarity of communication during loan process	**15.12**
flexibility in adjusting instalments based on financial circumstances	**8.54**

Table 8: Freidman Rank Test

Test Statistics[a]	
N	200
Chi-Square	1946.467
df	24
Asymp. Sig.	0.000
a. Friedman Test	

Table 9: Friedman Rank test statistic

Friedman rank correlation test is conducted to understand the differences in customer opinion on the influence/impact of different factors on customer/csonsumer satisfaction. The results show that there exists a significance in the difference in the opinion of respondents, as the P value is 0.000 and chi square is 1946.467. The important factor that was considered by respondents to select banks for home loans are clarity in understanding installment structure, competitive interest rates, employee quickness in answering queries, low processing fees . Whereas the least important factor was flexibility in adjusting installments based on financial circumstance.

CONCLUSION:

In India, with increase in purchasing power, the demand for home loans too witnessing a higher demand. Investors always plan their investments and set goals to achieve the same. Depending upon their financial position and other investment options, a careful study is done by all investors before real estate investment decision. And in Indian culture, purchasing and owning a house is a legacy that has to be carried forward by every generation. There are several banks which offer home loans and it is equally important for the banks to keep a record of all the factors considered by customers to end up in purchasing. This article has covered six such factors which affect the purchase decision of home loans and the bank to be selected for the same. Among those factors, impact of easy installments, monetary benefits and ease of processing are important and have

higher impact than the other factors on customer satisfaction. Even Friedman test proves the same that installments, processing fees, service quality are prime important. This also includes the affordable interest rates too. This research study provides an insight into the indepth expectations of customers from home loan providers. This can be used to develop strategies accordingly to attract new customers and to retain the already existing customers.

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