

THE CUSTOMER AWARENESS ON HOME LOAN INTEREST RATES AND THEIR BORROWING BEHAVIOR

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Abstract: This study investigates how well informed consumers are about home loan interest rates and how that knowledge affects their borrowing decisions. Understanding consumer awareness and decision-making is essential since the home loan industry plays a significant role in both the financial wellbeing of people and the overall economy. Customers' sensitivity to rate changes, their understanding of fixed versus floating interest rates, and the influence of financial literacy on loan selection are all examined in this study. The study uses survey data and behavioral analysis to show that borrowers have a substantial awareness gap that frequently results in less-than-ideal financial decisions. The results highlight the necessity of more transparent lending policies and improved financial education in order to enable consumers to make well informed borrowing decisions.

Keywords: Home Loans , Interest Rates , Borrowing Behavior, Financial Literacy, Consumer Awareness

I. INTRODUCTION

Short note on finance:

The term "FINANCE" refers to the financial activities that support the lives of individuals, businesses and government. In other way we can say that finance is a broad term that describes the activities associated with banking leverage or debit, credit, capital market money and investments.

According to F.W. Paish

"Finance may be defined as the position of money at the time it is wanted." This definition emphasizes the timing and availability of funds when they are needed. Finance is not just about money but ensuring that funds are available when required for investment, expenses, or growth.

SHORT NOTE HOME LOANS:

In today's dynamic financial environment, home loans have become a vital instrument for individuals aspiring to own property. As real estate prices rise and access to capital becomes essential, borrowing behavior among customers has witnessed significant transformation. One of the most critical aspects influencing this behavior is the level of awareness customers have about home loan interest rates. Interest rates directly affect the affordability of loans, monthly repayment burdens, and the total cost of borrowing.

Customer awareness on home loan interest rates and their borrowing behavior in bank: In the banking sector, home loans represent one of the most significant and competitive lending products offered to customers. As financial institutions strive to expand their retail lending portfolios, understanding customer behavior and awareness becomes increasingly important. One of the key factors influencing a customer's decision to borrow is their understanding of home loan interest rates. Interest rates, whether fixed or floating, directly impact the cost of borrowing and repayment capability.

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these rates are calculated, the role of external benchmarks, or how market fluctuations affect their loan commitments. This lack of awareness often results in customers choosing loan products that may not align with their financial situation or long-term goals. From a banking perspective, it is crucial to ensure transparency and educate customers on the implications of interest rate structures to build trust and reduce default risks. Studying customer awareness on home loan interest rates and how it shapes their borrowing behavior enables banks to improve product offerings, enhance customer service, and support more responsible lending practices.

Need for the study:

The need for this study arises from the importance of customer awareness and understanding of home loan interest rates in making informed decisions about their borrowing. With the increasing complexity of home loan products and the rising debt levels among households, it is essential to investigate how customers make decisions about home loans and how their awareness of interest rates affects their borrowing behavior. This study aims to bridge the gap in existing research by providing insights into customer awareness and understanding of home loan interest rates, which can inform policymakers, regulators, and lenders in developing effective policies and strategies to promote customer protection and responsible lending practices.

Objectives:**Primary Objective:**

The primary objective of this study is to examine the relationship between customer awareness of home loan interest rates and their borrowing behavior.

Secondary Objectives:

- To investigate the factors that influence customer awareness of home loan interest rates.
- To identify the gaps in customer awareness and understanding of home loan interest rates.
- To explore the role of financial literacy in customer awareness and borrowing behavior.

Scope of the Study:

The scope of this study encompasses a comprehensive examination of customer awareness and understanding of home loan interest rates, as well as its impact on their borrowing behavior. This includes investigating the current level of knowledge among customers regarding home loan interest rates, analyzing the factors that influence customer decision-making when selecting a home loan, examining the relationship between customer awareness and their borrowing behavior, and identifying the gaps in customer awareness and understanding of home loan interest rates.

II. REVIEW OF LITERATURE

Aarti Varma (2015) studied the customer perception towards home loan and their satisfaction level towards the home loan services offered by banks. The study revealed the fact that customers felt home loan procedure is difficult and time consuming and they look at interest rate and service quality as major factors in opting for home loan. More home loan schemes, less procedural delays, better distribution setup, lesser documentation formalities, loan transparency would enable the consumers to enjoy the complete benefits of home loans without any hazards.

Arunodayam and Thangavel (2007) reviewed the problems of Housing policies, performance of selected housing finance institutions and banks, identified the interest rate problems on home loan. The study was conducted in the city of Chennai on a sample of 300 home loan borrowers of HDFC, LIC housing finance ltd, ICICI bank ltd. It was observed that average number of family members opting for home loan is 4. Higher educated people, respondents with middle and higher income avail more loans. The average loan amount availed by respondents is Rs. 4.6 lakhs and it is seen that spouse income also supports the household. Further, it is observed that selected institutions account for 67 percent of the home finance loans.

Rewathy and kumara balan (2009) This research look at the problems that consumers have with interest rates. Customers require a lower interest rate, but interest rates vary due to the country's financial situation, and when the interest rate is lower, customers are happy; when the interest rate rises, customers face financial difficulties, according to the report.

Siva kumar (2016) Housing loan satisfied the customer's needs only the customer satisfied with the bank's services. Any changes in loan terms should be conveyed to consumers in a timely manner. According to the findings of this report, the majority of respondents are happy if their respective banks meet their needs.

Dr. Sheha kumar H mistry (2013) focused on the factors affecting customer satisfaction in banks and analyzing their effects. It is revealed that customer satisfaction is the key for many banks to survive competition. Customer gives third preference to assurance factor, it include criteria like safety of transaction, consistency in service etc.

Bandyopadhyay (2011) has demonstrated the importance of borrower specific characteristics as well as local situation factors in determining the demand prospects as well as the risk of credit, loss on residential housing loan

repayment behavior in India. This paper attempts to find out the critical factors that drive demand for housing and its correlation with borrower characteristics.

Faik Koray and Eric T. Hillebrand had studied about the Interest Rate Volatility and Home Mortgage Loans . they studied that The U.S. economy has experienced substantial fluctuations in real and nominal interest rates since the 1970s. This paper investigates empirically the relationship between home mortgage loans and volatility in mortgage rates for the period 1971:02 through 2003:03. Contrary to common wisdom, we find a positive relationship between mortgage rate volatility and home mortgage loans. Further investigation indicates that this is due to volatility in the bond market. In times of high interest volatility, households disinvest in government securities and invest in real assets, which yield a positive relationship between mortgage rate volatility and home mortgage loans.

Gaur (2009) has articulated that Retail banking in India operates in a highly saturated and competitive market... The main objective of the research is to make a comparative study of satisfaction of the borrowers from the selected banks. It is concluded from the study that ICICI bank has an excellent staff members in terms of behavior in comparison to the staff members of SBI. Further the services of ICICI bank are much better than the services of SBI.

Pushpa and Kanwar (2023) evaluated the housing loan schemes offered by various financial institutions and also studied the customer's response regarding housing loans and their level of satisfaction and problems faced by them while dealing with the bank. The study revealed the fact that the customers are attracted towards the lower interest rate and processing fee of private sector banks and they are not satisfied with the service quality of the public sector banks.

Rani (2024) has articulated that a home loan is a long term commitment of 15-20 years, several factors like expertise, quality of service commitment and transparency right through the loan procedure the line print etc. The main objective of the bank is to promote the good guidelines and update the customers frequently in all terms of housing financial institutions in the country as well as to provide refinance facilities to housing finance corporation and scheduled commercial banks. After review of earlier studies on housing finance it is found that very few studies considered the this aspect of finance and other studies are mostly on problems of borrowers and macro level analysis of performance of financial institutions and banks. It reveals the need of research on housing loan policy of a bank and its comparative analysis with that of other banks. So the same issue has been analyzed in this paper.

Ravi C.S &Kundan Basavaraj (2020) investigated the satisfaction level on customers towards loans, interest rates, services provided in public, private banks in Chennai.Overall satisfaction on bank is positively and still need to be given attention by focusing on customer issues.

III. RESEARCH METHODOLOGY

Research methodology refers to the systematic process used to collect, analyze, and interpret data in a research study. It outlines the tools, techniques, and procedures a researcher uses to gather and evaluate information to solve a research problem or answer specific questions.

Analytical Tool

Percentage Analysis: Percentage Analysis is the method to represent raw streams of data as a percentage (a part in 100-percent) for better understanding of collected data.

Anova: It is a collection of statistical models and their associated estimation procedures (such as the variation among and between groups) used to analyze the differences among group means in a sample. ANOVA was developed by statistician and evolutionary biologist Ronald Fisher.

Correlation: Correlation measures the strength and direction of a linear relationship between two quantitative variables. The most common method used is Pearson's correlation coefficient (r).

Regression: Regression is a statistical technique used to analyze the relationship between a dependent variable and one or more independent variables.

IV. DATA ANALYSIS AND INTERPRETATION

Do you have Aware about the Home loan?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	65	78.3	78.3	78.3
	2	18	21.7	21.7	100.0
	Total	83	100.0	100.0	

INTERPRETATION:

- High Awareness (78.3%): Most respondents (78.3%) are aware of home loans, which implies that the sample is knowledgeable about home loans and financial matters.

Have you ever taken a home loan?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1	40	48.2	48.2	48.2
2	43	51.8	51.8	100.0
Total	83	100.0	100.0	

INTERPRETATION:

- Balanced Response: About half (51.8%) have not taken out a home loan, while the other half (48.2%) have, indicating a mixed experience with home loans within the sample.

How satisfied are you with your current home loan?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1	30	36.1	36.1	36.1
2	32	38.6	38.6	74.7
3	19	22.9	22.9	97.6
4	2	2.4	2.4	100.0
Total	83	100.0	100.0	

INTERPRETATION:

- While many (38.6%) are satisfied with their home loan, there are still significant portions dissatisfied, indicating areas for improvement in loan offerings or financial education.

ANOVA
ANOVA

23.How much of your income do you allocate towards EMI payments?

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	2.617	3	.872	1.044	.378
Within Groups	66.033	79	.836		
Total	68.651	82			

INTERPRETATION:

The ANOVA results show that the between-group sum of squares is 2.617, with 3 degrees of freedom, resulting in a mean square of 0.872. The within-group sum of squares is 66.033 with 79 degrees of freedom, leading to a mean square of 0.836. The F-statistic is calculated as 1.044, with a corresponding significance value (p-value) of 0.378. Since the p-value is greater than the common significance threshold of 0.05, we fail to reject the null hypothesis. This indicates that there is no statistically significant difference in the proportion of income allocated toward EMI payments across the different groups tested. In other words, the amount of income individuals dedicate to EMIs does not vary meaningfully depending on the category or group under consideration in this analysis.

V. FINDINGS

The analysis revealed several key insights into the relationships between demographic factors, home loan literacy, and financial behaviors. The majority of the respondents were from a younger age category, with notable correlations

observed between age, occupation, marital status, and location. Income was significantly associated with gender, suggesting potential income disparities. Strong positive correlations were found among the core financial constructs—home ownership awareness, home loan literacy, loan management, financial attitude, and financial outcomes—highlighting the interconnectedness of financial knowledge and responsible loan practices. These findings suggest that individuals who are more informed and confident about home loans tend to manage their finances better and achieve more favorable financial outcomes.`

VI. CONCLUSION

In conclusion, the investigation into customer awareness of home loan interest rates reveals a multifaceted landscape influenced by various factors. Key determinants such as credit scores, income stability, loan-to-value ratios, and the type of interest rate chosen significantly impact the interest rates offered to borrowers. However, studies indicate that many consumers remain unaware of the housing loan services and schemes available, leading to potential dissatisfaction and suboptimal borrowing decisions. Research underscores that a lack of financial literacy can lead to poor budgeting, unrealistic financial expectations, and a higher likelihood of defaulting on loans. Conversely, enhanced financial education can empower consumers to make informed decisions, understand the implications of various loan terms, and manage repayments effectively.

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