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A STUDY ON THE FINANCIAL IMPLICATIONS OF HOME LOAN AND BORROWERS' ATTITUDE - WITH SPECIAL REFERENCE TO SALARIED CLASS

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ABSTRACT

After food and clothing, housing is the third most important human requirement. Everyone wants to buy a home or build a classy home according to their taste. Thus, in the Indian context, there is an urgent need and growing demand for housing finance. Taking a loan is a good option when the money at hand is insufficient to buy the house. This study aims to find the financial implications of raising of house loan and the attitude of the salaried class borrower. On the analysis of the data collected from 125 respondents, chosen randomly, it is found that the maximum percentage of the respondents had the benefit of 50 percent to 75 percent rise in the value of their house purchased/ constructed and all the tax payees in the study have availed the tax benefits on repayment of home loan. The analysis of financial implications reveals that the highest percentage of the home loan borrowers had positive attitude towards home loan and the tax benefit on the repayment of loan was fully availed by all the tax payees.

KEY WORDS – Borrowers Attitude, Financial Implications, Home Loan, House value, Tax Benefit.

I. INTRODUCTION

Every human being wishes to own a house as it is one of the basic needs of an individual in terms of safety, security, self-esteem, social status and satisfaction. Housing is treated largely as a family driven investment activity. It is considered to be a crucial investment decision in one's life. It encourages saving in the form of physical assets. To own an asset like a home, a person has to put his or her own efforts, sacrifice their luxurious spending and more than that they have to gather funds required or promote their savings habit. Though savings form a part to fulfill their dream, it cannot make the entire contribution. Shortage of funds may occur. Thus to support them financially there are many housing finance institutions and banks.

Policymakers in developing and developed economies recognize the social and economic importance of housing investment. Housing plays an important role in the economic development of the country by providing employment opportunities to both skilled and unskilled labourers. It also helps in the industrial development by creating demand for various products such as cement, steel, bricks and wood.

High economic growth coupled with rapid urbanization and a rising middle income class have created considerable demand for housing and housing finance in South Asia. More than 14% of low-income families in the region have no home. While housing and housing finance markets have grown at a rate of 30%, it is the high -income families that

benefitted the most. The market also tries to cater the middle -income groups, where supply is ample from both developers and financial institutions.

But around 30 million middle-and lower-class households in South Asia— which accounts for 11% of the region’s population— have the willingness to pay, but unable to have access to mortgages. In India alone, estimates of the housing shortage range from 20 million to 70 million yet as much as half of this excess demand can be profitably serviced by the housing finance markets.

The housing finance market in India amounts to about Rs.4 billion of which 66 percent is held by commercial banks and the balance by specialized housing finance companies. The housing finance market is concentrated with four financial institutions controlling more than two thirds of market: HDFC Ltd., Life Insurance Corporation (LIC), Housing Finance Ltd., ICICI Bank and State Bank of India (SBI).

As per 2011 census, the country had a population of 1210.98 million, out of which 377.10 million (31.16 percent) lived in urban areas. During 2001-2011, the urban population of India grew from 27.81percent to 31.16 percent. The growing concentration of people in urban areas has led to problems of land shortage, housing shortfall and congested transit and has also severely stressed the existing basic amenities such as water, power and open spaces of towns and cities. According to the 2011 census, the housing stock in urban India stood at

78.86 million urban households. According to the estimates of Technical Group constituted by the Ministry of Housing and Urban Poverty Alleviation (MHUPA), a minimum of 30 million additional houses will be required by 2020.

Understanding of these facts warrants a study on the attitude of home loan borrowers and the financial implications of home loan raised.

II. OBJECTIVES OF THE STUDY

1. To analyse the financial implications of raising of house loan from commercial banks in the borrowers’ perspective.
2. To study the attitude of the salaried class borrowers towards home loans provided by commercial banks.

Hypotheses:-

- H₀₁: There is no correlation between amount of loan taken and amount of tax saved.
 H₀₂: There is no significant relationship between the attitude towards home loan and the rise in the value of the house.
 H₀₃: There is no significant relationship between the attitude and tax payment status.

III. RESEARCH DESIGN

“A Study on The Financial Implications of Home Loan and Borrowers’ Attitude - With Special Reference to Salaried Class” was carried out with the following methodology. The main source of data was primary data. For the purpose of the study a structured questionnaire was prepared and the data was collected from 125 respondents who got housing loan from the banks in Udumalpet. The data has been collected using random sampling method. The borrowers in the study refer to the employees of various sectors employed in Udumalpet.

IV. STATISTICAL TOOLS USED

For the analysis of the data following statistical tools were used:

- | | |
|----------------------------------|--------------------------------------|
| a) Percentage Analysis Technique | b) Scoring |
| c) Chi-square Test | d) Pearson’s Correlation Coefficient |

V. LIMITATIONS OF THE STUDY

- Since the study is based on the primary data collected through questionnaire, the results of the study is subject to all the limitations of the primary data.
- The limitations of the random sampling is applicable for the study.
- The attitude of the people may change over time. Hence, the results are valid for the period specified in the study.

VI. REVIEW OF LITERATURE

An attempt is made to bring out the relevant past studies with their results in connection with present study. The following literature would help in strengthening the study.

Anna Szava, Mark Moran Anna Szava and Mark Moran (2008) in their study, “Perceptions of home ownership among IBA Home Loan Clients” aimed to find out the main reasons for home ownership and found that most of the families went for home ownership due to their negative experiences in rental accommodation such as high rent, insecure tenure and the inability to make improvements to their place of residence.

Rajini (2009) made a study entitled, “A Study on Home Loans”. The main objective of the study was to know the Customers perceptions about home loans of Housing Development Finance Corporation (HDFC) Ltd. It was found that many are interested to take home loan from HDFC Ltd even though the interest rates are high due to less time taken for sanction and simple process of loan when compared to other banks. The time taken for disbursement of the loan was also low when compared to other banks.

Rajani Levaku (2012) conducted a study to find out the problems and opinions of the

borrowers of the Housing Finance Institutions (HFIs). The researcher found that the rules and regulations were the major problem faced by the borrowers and most of the borrowers opined that the insurance cost can be collected in installments and the cost of the plot was to be considered by the HFIs for financing.

Dr.Vighneswaraswamy(2012)

conducted a study entitled, "A Comparative Study of the Borrower Perception of Retail Lending in Private and Public Sector Banks in India". The study aimed to find out the perception of the retail borrowers about the private sector banks and public sector banks in India. It was found that the private sector banks are

better in the retail lending, with parameters such as marketing of loan products, borrower guidance, presentation, loan documentation process and transaction cost. The public sector banks are better in parameters such as interest rates on loans, service charges, post-sanction treatment, loan recovery method and grievance handling.

None of these studies have discussed the financial implications of borrowing home loans and attitude of salaried class borrowers towards home loan. All these issues have been taken up for analysis in the present study.

VII. ANALYSIS AND INTERPRETATION

Table 1 - Characteristics of the Sample

Factors	Classification	Number of Respondents	Percentage of Respondents
Gender	Male	70	56
	Female	55	44
Age	Below 30 years	9	7
	30 – 40 years	48	39
	40 – 50 years	55	44
	Above 50 years	13	10
Educational Qualification	Up to school level	18	15
	Under Graduate level	29	23
	Post Graduate level	44	35
	Diploma	34	27
Working Sector	Private sector	54	43
	Government sector	71	57
Monthly Income	Below Rs.25,000	41	33
	Rs.25,001 - Rs.50,000	62	50
	Above Rs.50,000	22	17
Status regarding Tax Payment	Tax payee	75	60
	Non tax payee	50	40

Source: Primary Data.

Characteristics of the sample population is presented in Table 1. It shows that out of 125 respondents 56 percent of the respondents are male and the remaining 44 percent of the respondents are female.

Regarding age of the respondents, 44 percent were in the age group of 40 to 50 years; 39 percent were between the age group of 30

and 40 years; 10 percent were in the age group of above 50 years and seven percent were in the age group of below 30 years.

With regard to education of the respondents, 35 percent were postgraduates; 27 percent had diploma education; 23 percent were undergraduates and the remaining 15 percent

of the respondents had only school level education.

Regarding working sector of the respondents, 57 percent were employed in the Government sector while the remaining 43 percent were employed in the Private sector.

With regard to monthly income of the respondents, 50 percent had monthly income between Rs.25,001 and Rs.50,000; 33 percent had monthly income below Rs.25,000 and the remaining 17 percent had monthly income above Rs.50,000.

With regard to tax payment status of the respondents, 60 percent were tax payee and the remaining 40 percent were non tax payee.

It reveals that majority (56%) of the respondents are male, 44% of the respondents are in the age group of 40 – 50 years, the highest of 35% of the respondents are post graduates, 57% of the respondents are working in the government sector, 50% of the respondents had a monthly income of Rs.25,001 - Rs.50,000 and 60% of the respondents are tax payers.

I. Financial Implications of Home Loan Availed:-

Financial Implications have been analysed with two parameters,

i) Appreciation in the value of the house constructed or purchased.

ii) Tax benefits of taking a home loan.

The percentage of increase in the value of the house is calculated in comparison with the cost of construction. The difference between the current market value of the house and the cost of construction or purchase of the house is calculated and it is divided the original cost of constructing or purchasing the house.

Current market value – Construction or Purchase cost

$$\frac{\text{Percentage of rise}}{\text{Cost of construction or purchase}} \times 100 =$$

The tax advantage can be taken up by the home loan borrowers, if they are tax payees. In the present study 60 percent of the respondents are tax payees.

Under Section 24 of Income Tax Act the interest on loan upto Rs.1.5 lakhs per annum is exempted from income tax (under section 23/24(1) of the Income Tax Act), during the assessment year 2013 -14. In the assessment year 2014 -15 the amount has been increased to Rs.2 lakhs from Rs.1.5 lakhs.

Table 2 - Amount of Loan Taken by the Respondents

Amount of Loan Taken	No. of Respondents	Percentage
Below Rs. 5,00,000	20	16
Rs.5,00,001 – Rs.10,00,000	42	34
Above Rs.10,00,000	63	50
Total	125	100

Source: Primary Data.

The above table shows that 50 percent of the respondents had taken home loan of more than Rs.10,00,000; 34 percent of the respondents took home loan between Rs.5,00,001 and Rs.10,00,000 and the remaining 16 percent of the respondents availed home loan of less than Rs.5,00,000.

It is identified that the highest percentage (50 percent) of the respondents in the present study had taken home loan of above Rs.10,00,000.

Table 3 - Rise in the value of the house

Rise in the value of the house	No. of Respondents	Percentage
Less than 50 percent	18	14
50 percent – 75 percent	79	63
More than 75 percent	28	23
Total	125	100

Source: Primary Data.

Table 3 shows that 63 percent of the respondents had 50 percent to 75 percent rise in the value of the house constructed or purchased; 23 percent of the respondents had more than 75 percent rise in the value of the house constructed or purchased and the remaining 14 percent of the

respondents had less than 50 percent rise in the value of the house.

It is identified that the maximum percentage (63 percent) of the respondents had 50 percent to 75 percent rise in the value of the house constructed or purchased.

Table 4 - Percentage of Tax Saved per year due to Home Loan Repayment

Percentage of Tax Saved	No. of Respondents	Percentage
Below 25 percent	15	20
25 percent – 50 percent	28	37
Above 50 percent	32	43
Total	75	100

Source: Primary Data.

The above table reveals that 43 percent of the respondents saved more than 50 percent of the tax payable by them per year due to home loan repayment; 37 percent of the respondents saved 25percent to 50 percent of the tax payable by them per year due to home loan repayment and the remaining 20 percent of the respondents saved less than 25percent of the tax payable by them per year due to home loan repayment.

It is identified that all the tax payees have availed the tax benefits on repayment of home loan. Majority (43 percent) of the respondents saved more than 50 percent of the taxes payable per year due to home loan repayment.

II. Analysis of the Home Loan Borrowers’ Attitude:-

The analysis of the primary data regarding the attitude of the home loan borrowers collected through questionnaire was carried out with Likert’s scale. It includes fourteen statements.

Each statement was awarded a score depending on the type of response. The total score of a respondent was found out by adding the scores awarded to the individual statement. The Attitude of home loan borrowers was analysed with the help of two-way tables, percentage, mean, standard deviation and chi-square test.

Based on individual scoring, arithmetic mean and standard deviation was calculated. The arithmetic mean was 15.92 and standard deviation was 1.93.

The home loan borrowers who had scores above the arithmetic mean plus standard deviation (15.92 + 1.93) were classified as home loan borrowers with positive attitude. Those who had scores below arithmetic mean minus standard deviation (15.92 - 1.93) were classified as home loan borrowers with negative attitude. Those who scored between (15.92±1.93) were classified under Neutral. The results of the analysis has been presented in the following table.

Table 5 - Attitude of Home Loan Borrowers

Attitude of Home Loan Borrowers	No. of Respondents	Percentage
Positive	62	50
Neutral	34	27
Negative	29	23
Total	125	100

Source: Primary Data.

The above table shows that out of 125 respondents, 50 percent of the home loan borrowers had positive attitude, 27 percent of the home loan

borrowers’ attitude was neutral and the remaining 23 percent of the respondents had negative attitude.

Hypotheses Tested:-

The following hypotheses were tested with reference to financial implications and attitude of home loan borrowers.

Amount of Loan Taken and Amount of Tax Saved by the Respondents:-

The association between the amount of loan taken and the amount of tax saved was tested with the following null hypothesis.

H₀₁: There is no correlation between amount of loan taken by the respondents and amount of tax saved by the respondents.

Descriptive Statistics

	Mean	Std. Deviation	N
Amount of Loan Taken	1170666.67	468837.935	75
Amount of Tax Saved by the Respondents	50500.00	28845.699	75

Table 6 Correlation Between Amount of Loan Taken and Amount of Tax Saved by the Respondents

		Amount of Loan Taken	Amount of Tax saved by the Respondents
Amount of Loan Taken	Pearson Correlation	1	.961**
	Sig. (2-tailed)		.000
	N	75	75
Amount of Tax Saved by the Respondents	Pearson Correlation	.961**	1
	Sig. (2-tailed)	.000	
	N	75	75

** . Correlation is significant at the 0.01 level (2-tailed).

Table 6 shows the matrix of the Pearson’s correlation coefficient.

The value of r=0.961

The value of r is positive and significance (2-tailed) value of 0.000 is below 0.01. Hence the null hypothesis is rejected and it can be said that there is a positive correlation between the amount of loan taken

by the respondents and the amount of tax saved by the respondents.

H₀₂: There is no significant relationship between the attitude of the respondents towards home loan borrowings and the percentage of rise in the value of the house.

Table 7 Attitude towards Home Loan and Rise in Value of House Purchased/ Constructed.

Attitude	Positive Attitude	Neutral	Negative Attitude	Total
Rise in Value				
Less than 50 percent	5	6	7	18
50 percent to 75 percent	46	21	12	79
More than 75 percent	11	7	10	28
Total	62	34	29	125

Calculated value of chi-square =15.437

Table value at 5% level of significance =9.49

Degrees of freedom = 4

The calculated value of chi-square is more than the table value. Hence, the null hypothesis is rejected at 5% level of significance. It can be said that there is no

significant relationship between the attitude of the respondents towards home loan borrowings and the

percentage of rise in value of the assets of the respondents.

H₀₃: There is no significant relationship between the attitude of the respondents towards home loan borrowings and the tax payment status of the respondents.

Table 8 Attitude towards Home Loan and Tax payment status of the respondents

Attitude Tax payment status	Positive Attitude	Neutral	Negative Attitude	Total
Tax Payees	40	20	15	75
Non Tax Payees	22	14	14	50
Total	62	34	29	125

Calculated value of chi-square =2.923

Table value at 5% level of significance =5.99

Degrees of freedom = 2

The calculated value of chi-square is less than the table value. Hence, the null hypothesis is accepted at 5% level of significance. It can be said that there is

VIII. FINDINGS OF THE STUDY

I. Demographic Factors of the Respondents:-

- The majority (56 percent) of the respondents are male members.
- The maximum percentage (44 percent) of the respondents were in the age group of 40 to 50 years.
- The highest percentage (35 percent) of the respondents were post graduates.
- The highest percentage (57 percent) of the respondents in the present study were employed in the Government sector.
- The highest percentage (50 percent) of the respondents' monthly income was between Rs.25,001 and Rs.50,000.
- The maximum percentage (60 percent) of the respondents were tax payers in this study.

VI. Financial Implications of Home Loan Availed

- The maximum percentage (50 percent) of the respondents had taken home loan of above Rs.10,00,000.
- The maximum percentage (63 percent) of the respondents had 50 percent to 75 percent rise in the value of the house constructed or purchased.
- Majority (43 percent) of the respondents saved more than 50 percent of the taxes payable per year due to home loan repayment.

no significant relationship between the attitude of the respondents towards home loan borrowings and tax payment status of the respondents.

VII. Analysis of Home Loan Borrowers' Attitude

- The highest percentage (50 percent) of the home loan borrowers' had positive attitude, 27 percent of the home loan borrowers' attitude was neutral and the remaining 23 percent of the respondents had negative attitude.

VII. Results of Hypotheses Testing

- There is correlation between amount of loan taken and amount of tax saved.
- There is significant relationship between the attitude and the percentage of rise in the value of the house.
- There is no significant relationship between the attitude and tax payment status.

XI. CONCLUSION

It is identified that nearly half of the respondents in the present study had taken home loan of above Rs.10,00,000. Nearly 60 percent of the respondents had 50 percent to 75 percent rise in the value of the house constructed or purchased. It is identified that all the tax payees have availed the tax benefits on repayment of home loan and around 40 percent of the respondents saved more than 50 percent of the taxes payable per year due to home loan repayment. The highest percentage of the home loan borrowers' had positive attitude, 27 percent of the home loan borrowers' attitude was neutral and the remaining 23 percent of the respondents had negative attitude.

There is a positive correlation between the amount of loan taken by the respondents and amount of tax saved by the respondents. There is no significant

relationship between the attitude and the percentage of rise in the value of the house and also between the attitude and tax payment status.

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