

**UNDERSTANDING LOAN REPAYMENT PRIORITIES IN INDIA: UNRAVELING FINANCIAL INTENTIONS AND BEHAVIORS****Dr. (Prof) Shubhada Apte and Rupali Shelar**

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**ABSTRACT**

*The aim of the study is to analyse the repayment priorities of borrowers who have borrowed multiple loans. A survey of 200 participants belonging to the Thane District of Maharashtra, India was conducted, to analyse how financial volatility and psychological factors affect the repayment behavior. Important findings were that in times of income instability and fluctuations affecting the repayment capacity, the repayment of home loans remains the highest priority over other loans- both secured and unsecured. Also, it is found that a borrower who promptly services one type of loan may not demonstrate the same efficiency while repaying other loans. The psychological factors i.e.- emotional attachment and security of owning a house, plays a crucial role in such prioritisation. Different statistical tests, including ANOVA and Chi-Square tests, have confirmed positive significant differences in repayment priorities across different loan types. Considering behavioral economics principles for financial risk assessment, enhancing financial literacy, developing customized repayments, are few of the recommendations to encourage responsible borrowing and prompt repayments. The research, in spite of its limitations in scope and resources, has highlighted the behavioral dynamics of loan repayment priorities. Also, it has opened avenues for delving deeper to explore these dynamics further, and to develop comprehensive credit risk management strategies for mitigating risk and promoting sustainable lending practices.*

*Keywords: Financial literacy, Responsible borrowing, borrower behavior*

**INTRODUCTION**

In the complex financial market of India, a consumer has access to a variety of loan products, which includes, home loans, consumer loans, education loans, vehicle loans, agriculture loans etc. These loans are sanctioned by banks or NBFC's, after a thorough risk assessment of the borrower's income and repayment capacity. Yet, it cannot be concluded that a borrower who promptly services one type of loan will demonstrate the same efficiency while repaying other loans. This behaviour is prominent during periods of financial instability or stress, which affects the borrower's capacity to meet his EMI obligations. This paper aims to understand the hierarchy of loan repayment priorities among borrowers during times of financial uncertainties. It seeks to determine whether certain loans are prioritized over others and to understand the dynamics for preferential treatment for repayment of one type of loan over the other loans. The study delves into the cultural and behavioral aspects that influence repayments.

The customers' financial behavior is influenced by his/her ability and intention to repay a loan. The ability to repay loans can be tangible and justified by income levels, savings, employment stability etc. While, the intention to repay is intangible, depending on factors like personal and cultural values, emotional attachments etc. These subjective and intangible factors have greater influence on borrowers to prioritize home loan repayments over other obligations.

The study offers critical insights to multiple stakeholders, which includes lenders, policymakers, financial advisors as well the borrowers. By focusing on the inter relations between cultural values and financial behavior, the research aspires to develop more robust credit management system, which can mitigate risk and come up with informed strategies to enhance borrowers' support mechanisms. This paper seeks to untangle the intricacies of loan repayment behavior in India, with a focus on the cultural and emotional factors that, most importantly, influence financial decision-making during periods of uncertainties.

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### **AIM AND OBJECTIVES:**

The aim of the study is to discover the repayment priorities among borrowers enjoying multiple loans, within Thane District, India. Objectives include:

1. Examining the priority of loan repayment preferences during financial stress.
2. Analyzing the perceived security of home loans compared to other options.
3. Understanding why home loans remain favored despite other options.

### **LITERATURE REVIEW**

There are several studies which have explored factors influencing loan repayments across different loan categories, including home loans, personal loans, and agricultural loans. The subject holds importance due to its significance in understanding the linkage between financial stability and credit risk management.

Gupta and Sharma (2018) highlighted the influence of factors like education, job stability, income levels on loan repayment behavior in India. They found that, higher incomes and stable employment are important factors to adhering to repayment schedules.

The understanding of financial literacy in loan repayment behavior has also been emphasized in the literature. Banerjee et al. (2019) and Patel and Mohan (2020) observed that borrowers with greater financial literacy exhibited disciplined repayment tracks and managed their debts effectively. Government schemes and subsidies, have been found to impact on loan repayment behavior. Kumar and Reddy (2017) analyzed the effects of government-sponsored credit schemes on agricultural loan repayments, highlighting the importance of timely disbursement and the importance of financial literacy in improving repayments.

Singh and Gupta (2016) and Rao et al. (2019) explored the influence of psychological factors and behavioral biases such as overconfidence, present bias, and loss aversion on borrowers' repayment decisions, suggesting that such behavioral could affect repayment patterns. The researchers have also examined the impact of Digital Finance and Fin-tech solutions in India, on loan repayment behavior. Jain et al. (2020) and Mishra and Jena (2021) explored the usage of digital payment platforms and its implications for loan repayments, highlighting the importance of technology in facilitating timely repayments to curtail default risks. Comparative analysis, comparing the repayment performance of home loans, personal loans, vehicle loans etc has been conducted by Das and Prusty (2018) finding variations in default rates and repayment patterns across loan categories.

To conclude, the literature on loan repayments in India brings out a multifaceted understanding of different factors which influence repayment behaviors. The availability of digital mode of repayments and behavioral economics are new avenues to bring in the repayment discipline, along with financial literacy, as well as government interventions play crucial roles to mitigate credit risks in the Indian financial landscape.

### **RESEARCH GAP:-**

While existing literature extensively explores the dynamics of loan repayment trends, including NPA trends, government incentives, and borrower characteristics, there is a notable gap in understanding the preferences and priorities of customers during adverse circumstances or financial instability. Limited research is available to understand why borrowers prioritize a particular loan repayment over other loans, despite facing similar economic challenges. This study is an attempt to address this gap by investigating the underlying reasons influencing borrower behavior and repayment preferences during times of financial calamities, exploring the unique dynamics affecting the loan repayment priorities in the Indian economy.

### **HYPOTHESIS:-**

#### ***Null Hypothesis (H0):***

There is no difference in the repayment priorities among different types of loans.

There is no association between the type of loan and the priority of repayment.

**Alternative Hypothesis (H1):**

There is a significant difference in the repayment priorities between different types of loans.

There is a significant association between the type of loan and the priority of repayment.

**Methodology for Data Analysis:-** The primary aim of this study is to understand the repayment priorities of customers who have availed multiple loans in Thane District, India. The survey seeks to identify which loan types customers prefer to repay first in times of financial stress, affecting the family income. The study aims to provide meaningful insights into the financial behavior influencing the priorities of loan borrowers in times of financial strain, contributing to the broader understanding of loan repayment dynamics in India.

**Survey Design:**

**Sampling and data collection:** A purpose sampling method was undertaken on selected 200 participants known to have availed multiple loans, including a home loan in the age group of 20 years and above. Personal interviews were done to gather data, ensuring a high response and accurate information is received.

**Questionnaire Design:** The primary outcome of the Questionnaire was to gather information on priority of loan repayments during financial instability. A range of loan options for ranking were provided along with collection of demographic information. Respondents were requested to rank their repayment priorities on a scale of 1 to 5, with 1 indicating the highest priority and 5 denoting the lowest.

**Data Entry and Cleaning:-** Responses were entered into a spreadsheet and checked for accuracy and correctness.

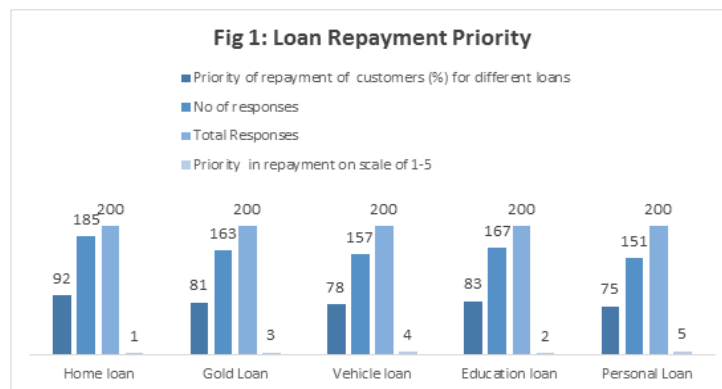
**Descriptive Statistic and Statistical Tests:-** The Mean, median, and mode were determined for the priority ranking of each loan category considering the percentage of respondents prioritizing each loan type. Chi-square tests and ANOVA were employed to identify significant differences in loan repayment priorities and loan types.

**Ethical Considerations, Informed Consent and Confidentiality:-** Every respondent was made aware of the purpose and objective of the survey. As well have obtained informed consent to ensure voluntary participation. Respondents were assured about the confidentiality of their data.

**DATA ANALYSIS AND FINDINGS:-**

**Table: 1 - Priority of Repayments in times of stress**

Types of loans	Priority of repayment of customers (%) for different loans	No of responses	Total Responses	Priority in repayment on scale of 1-5
Home loan	92	185	200	1
Gold loan	81	163	200	3
Vehicle Loan	78	157	200	4
Education loan	83	167	200	2
Personal Loan	75	151	200	5



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1) **Statistical Test:- ANOVA Test Analysis:-**To determine if there are statistically significant differences in the priorities of repayment among different types of loans and to compare the Means of different variables. And the results are as under :-

F-statistic	p-value
144.78	1.44e-97

p-value: The p-value is extremely low (much less than 0.05), which suggests that the differences in priorities of repayment are statistically significant.

Based on the ANOVA test results, *we reject the null hypothesis that there is no difference in the repayment priorities among different types of loans.*

- **Chi-Square Test Analysis:-** To determine if there is a significant association between the type of loan and the priority of repayment among customers.

Chi-Square Statistic	p-value	Degrees of Freedom
22.40	0.000132	4

The p-value is extremely low (0.000132), which is less than the conventional significance level of 0.05. This suggests that the association between the type of loan and the priority of repayment is statistically significant.

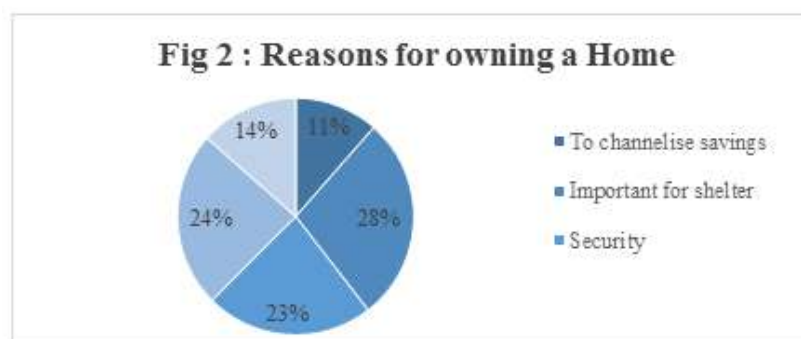
The Chi-Square test results implies *to reject the null hypothesis that there is no association between the type of loan and the priority of repayment.* The Statistical test determines that the type of loan significantly affects the priority of repayment among customers. This means that customers in Thane District do prioritize their repayments of loans differently, with home loans being the top priority, followed by other loans.

2)**Descriptive Statistics:-** The statistical representation i.e. The Mean, Mode, and Median for each loan type and the priority of loan repayments during financial volatility, is as under:

Type of loan	Mean	Mode	Median
Home loan	92%	1	1
Gold loan	81%	4	4
Vehicle Loan	78%	3	3
Education loan	83%	2	2
Personal Loan	75%	5	5

The outcome brings out how the borrowers prioritize different types of loans during financial stress, with home loans being the highest priority and personal loans the lowest. The mean values reflect the average priority given, while the mode and median provide insights into the most common and middle priority rankings respectively.

**Reasons why a home continues to be a popular investment in India:-**



### Detailed Findings of the Analysis and Study:

- **Loan Repayment Priorities:** The survey revealed that the majority of borrowers prioritize home loan repayments over other types of loans during times of financial stress. This preference is due to the emotional and financial value attached to home ownership. While home loans were consistently ranked as the top priority, there were variations in the prioritization of other loan types. Vehicle loans and personal loans often ranked lower in priority compared to education loans and gold loans, indicating differing borrower perceptions of loan importance and repayment urgency.
- **Impact of Economic Downturns:** The survey indicated that economic downturns drastically impact their ability to repay, with income fluctuations and job loss being key concerns. During such a crisis, borrowers tend to prioritize essential expenses, including home loan repayments. Borrowers with fluctuating incomes are more susceptible to defaults, especially for loans having shorter repayment tenures, like personal loans and gold loans.
- **Psychological Factors:-** Emotional attachment to home, viewing them as a symbol of stability and security for their families, home loan repayment remained the top repayment priority, even in challenging circumstances. Home ownership is perceived as a financial security and is considered a long-term investment, influencing borrowers' behaviour to prioritize home loan repayments.

These detailed findings offer a comprehensive understanding of loan repayment behaviors among borrowers in Thane District, Maharashtra. By leveraging these insights, lenders and policymakers can develop targeted strategies to promote responsible borrowing practices and mitigate credit risks effectively.

### CONCLUSION:

In conclusion, our study reveals that even during a financial crunch, repaying their home loans is the top priority for most borrowers due to various social and emotional reasons. Regular repayment of any loan does not guarantee regularity in repayment of other loans during the same tenure. Income volatility and intentions affects repayments, which brings out behavioural financial aspects. Overall, understanding these behaviour patterns and priorities can assist stakeholders to create better strategies to reduce loan defaults as well to borrowers to make practical decisions.

### RECOMMENDATIONS:-

- **Financial Literacy Programs:** To take initiatives around educating the customers, to empower them to make informed repayment decisions.
- **Customized Repayment Plans:** Develop flexible repayment options, like repayment breaks, moratorium periods to accommodate borrowers during financial fluctuations.
- **Credit Assessment and Monitoring:-** Build a credit assessment mechanisms to detect potential early defaults and provide timely interventions for regularisation .
- **Behavioral Economics Interventions:-** Clubbing of behavioral economics principles along with financial risk assessment to encourage responsible lending and borrowing.
- **Collaborative Efforts:-** Foster collaboration among stakeholders to address challenges and promote fair lending practices.

Additionally, analyzing borrowing history, enables lenders to identify high-risk borrowers and to come up with steps to mitigate credit risks effectively.

### LIMITATIONS OF THE STUDY:

This topic covers a vast subject area with extensive volumes of data. Given the constraints of available resources and time, an attempt has been made to provide meaningful insight. However, there remains ample opportunity for further exploration and in-depth analysis for future research.

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