Affordable Housing Customers and their Selection of Housing Finance

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Abstract

Housing for low income group households became a burning issue in urban areas worldwide. Most developing countries are facing housing shortage issue especially in urban areas. The constant efforts have been made in this direction but expected results could not be achieved. The developing country like India also has same kind of issue regarding housing shortage in specific categories i.e. EWS, LIG and MIG. Since a last decade, many developing countries have started to workout on affordable housing to get solution from the chronic issue of housing shortage in urban areas.

Effort has been made by offering land at cheaper rate, concession in construction taxes even though result is not up to the mark. However, housing finance can be a vital key to get easy and earlier solution to resolve the issue up to certain extent where this affordable housing is concern. In India, there are no significant schemes on part of housing finance providers to affordable housing customers. The study focuses on attributes of affordable customers' selection for housing finance. It also emphasis to associate the major determinants with housing finance selection in context of affordable housing customers in urban areas.

Key Words

Housing Finance, Affordable Housing, Cost, Service Quality.

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1. Introduction:

House is a basic requirement of human being and an asset which helps in creation of wealth and social status for a family. However, house involves highest amount of investment of a family as every family wants the facilities in house as per their capacity, it makes the investment in house relatively highest among all the investment. Consequently Low income households' faces issue of living in deprived housing or slum housing especially in urban areas.

Affordable housing customers are specially focused category world-wide, to overcome from housing shortage in the urban areas where the low income group people are facing chronic issue. In India 80.7 million persons, amounting to 26.7% of the total poor people in the country, live in urban areas and constitute nearly one-fourth of the urban population (MHUPA, 2007, cited in National Resource Centre, 2009). Policy makers and the housing industry alike are oriented towards affordable housing in order to develop an inclusive housing finance sector. The builder community and lending institutions have awakened to the huge market potential for affordable housing for lower income households. It made the housing shortage estimates down to 18.8 million units by 2012 from 24.7 million units by 2007 mainly in urban areas. Total Shortage of Housing by 2012 is from maximum 10.5 million units for the economically weaker sections (EWS) followed by the lower income groups (LIG) with 7.41 million and middle income group (MIG), with 0.82 million.

Liberalization of the housing finance sector has been smoothening the way for rapid growth of housing finance in India. Over the years, the mix of market orientation of the housing finance system and an enabling regulatory framework has provided the much desired growth in the housing market. Lower lending rates, stable property prices, rising personal incomes and tax incentives for owner occupied homes have contributed to the increase in the demand for housing finance in India. Still a way ahead to perform for the housing finance sector. Major players of housing finance sectors are, scheduled commercial banks and housing finance companies followed by Co-operative banks. Competition made market very competitive for Housing finance providers. The demand scenario indicates major demand of housing finance is from affordable segment. The affordable customer segment has their limited sources and expectation and it makes them separate from other customers. The exposure of housing loan selection determinant of affordable segment, the policy makers could have better exposure and provide possible solution to fill the gap to overcome an issue of housing shortage.

1.1 Concept of Affordable Housing:

The term ‘affordable housing’ describes housing that assists lower income households in obtaining and paying for appropriate housing with no financial hardship (Milligan et al 2004, pi). Still the term affordability is ambiguous. The term ‘Affordability’ is an easy concept to grasp in general but can be hard to identify in practice, especially where changing circumstances of individuals and households over the time (Bramley 2006 in Paris 2007, p1). Moreover, affordability can be experienced by household types in different ways; that is, through the employment, health, transport, and other consumption trades-off that have to be made by singles, sole parents and couples with children as they adapt their circumstances to high housing costs and/or low income (Gabriel et al 2005, p37).

In India, Affordability housing definitions emphasize on household income, repayment capacity, area of house etc., basically affordable segment customers consist of three specified income level i.e. Economic weaker section (EWS), Low income group (LIG) and Middle Income group (MIG) in India. The report of task force appointed by Ministry of Housing and Poverty Alleviation (MHUPA) 2012 has specified many definitions adopted in India by different state governments and institutions.

2. Literature Review:

The study of Dhillon et al. (1987) examined empirically the impact of both pricing and borrowering characteristics on the choice of the mortgage contract. Based on a small micro-data set covering a short sample period, that study finds that the rate on fix interest rate (fixed-rate mortgages-FRMs) and the margin on floating interest rate (adjustable-rate mortgages -ARMs) were important in the mortgage choice decision, while borrower characteristics, in general, were not significant determinants of the choice.

J. Sa-Aadu and Sirmans (1995) contest the approach of classifying all mortgage products into either Adjustable Rate Mortgages or Fixed Rate Mortgages. The authors estimate the mortgage choice behaviour by treating mortgages as differentiated products to see if this gives a better description of the mortgage choice process. The authors examine the choice between the varieties of residential mortgage contracts as a function of the various explanatory variables as regressors with the database of 345 mortgage loans initialized between the 1979 and 1984. The results of the study indicate that the impact of price variables, such as contract rates and discount points, on mortgage choice are found to differ across alternative mortgage contracts. Significant differences were found in borrower response to mortgage contracts of different Mortgage period. Greater mobility and younger age increased the preferences for short term mortgages. Their analysis highlights that age has negative impact on the probability of choosing shorter-term contracts. The analysis does not support the claim that borrowers with high-income prefer short-term mortgages. However, expectation of higher incomes raised the probability of choosing adjustable rate mortgages over fixed rate mortgages.

Talaga & Buch, (1998) study examines the weight of loan duration, the type of interest rate, the existence of other expenses and the bank's reputation in the selection process of mortgage loans. The study had taken into consideration involvement varies from customer to customer, product-having importance for one may not be equally important for the other customer. Preferable characteristics of mortgage product also vary. Customers compare the total features of the mortgage product of one provider to other.

Zineldin, (1996) found most important factors, which have a considerable impact on the selection of the mortgage provider, are services speed; friendly environment and accuracy in account transaction management, but the price, location of mortgage provider and convenience have no less impact on the selection of mortgage provider.
Lymperopoulos et al. (2006) investigated the choice criteria in bank selection for mortgage loans in Greece. Regarding choice criteria, they found that the bank service quality is the most important element that customers consider in order to select their mortgage providers and establish a long-term relationship with them.

Devlin (2002a, b) carried out research on choice criteria in selecting a mortgage provider in the UK with 4200 respondents. It also examined the choice criteria by investigating several demographic factors, namely gender, social class, household income and financial maturity. Initial study considered Professional Advice, Interest rate, Lend Amount, Other Account, Previous Mortgage, Branch Location, Discounts, Recommendations, Specific type, Cash back, Product Range, Image/ Reputation and Service Quality. The study found that professional advice is the most common choice criteria. On the other hand, service quality was found to be the least important choice criterion. This outcome somewhat contradicts to what found by Lymperopoulos et al. (2006) that claimed service quality is significant for a selection of a mortgage provider.

Mylonakis (2007) studied on customer preferences in the home loans market experience of the bank customers in Greece. He used 200 customers in which data was collected using structured questionnaire and findings shown that in addition to the mortgage product mix and some cost elements (interest rate, prepayment penalty) other important influential factors such as the various offers of banks, the bank's reputation, existing cooperation, as well as bank staff.

Frangos et al. (2012) studied factors affecting customer's decision for Loan with 277 respondents of Greek. This study utilized logistic regression and cross section study and used CFA analysis. Based on validated construct and variables the quality empirical study concluded Personal marital status, customer service, shop design and interest rates are the most significant predictors of taking loans. Interest rates, Service Quality are main factors in selection of Loan.

Mikhali Kotykhov, (2005) had taken Confidence, Cost, Service and Convenience as factors in his studies on determinant attributes of customer's choice of bank for supplying mortgage loan products. This study used loan products of six banks to compare the attributes and sub attributes as Reputation, Soundness, Recommendation for Confidence; Interest rate, Borrowing Limit, Application cost, Early repay costs for Cost; Speed of decision, Assistance in paper work, Terms of the Mortgage For Service; Liberal Approval criteria, ease & convenience of contact, bundling of product for convenience. This study concluded cost was the most important factor which includes interest cost, application cost and borrowing limit followed by factors as speed of loan approval. However bank reputation, recommendation soundness and safety of bank not found significant.

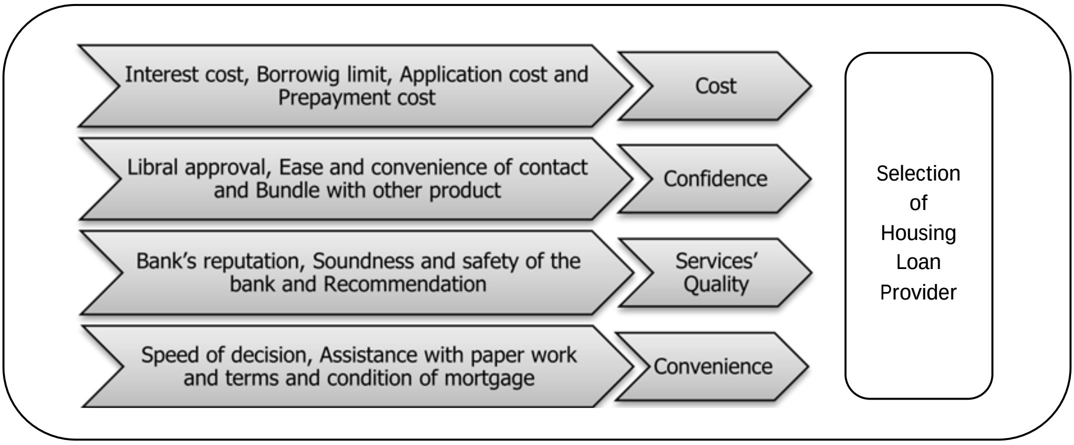
The above review highlights many studies which have been undertaken for selection bank and mortgage provider. However, very few studies have been conducted in Indian context. Specifically, study regarding affordable segment customers and urban area are not still touched upon. The objectives of this paper are to measure relationship between affordable customer's selection decision of housing loan provider and its determinants.

3. Research Model:

Bank selection for housing finance is dependent variable. It can be influenced by the independent variables like cost, confidence, convenience and service quality of housing finance. Cost of housing finance includes interest cost, borrowing limit, application cost and prepayment cost. Convenience level includes liberal approval, ease and convenience of contact and bundle with other product.

Confidence includes the bank's reputation, soundness and safety of the bank and recommendation. Service quality can be having a significant impact on the selection of housing finance. It consists on the speed of decision, assistance with paper work and terms and condition of mortgage. The research model employed for this research study is as follows:

Figure 1: Variables Affecting Selection of Housing Loan Provider



4. Research Methodology:

The attributes and questionnaire for mortgage selection applied by Kotykhov (2005) and Ahmed et al (2012) is adopted for housing finance product selection in urban areas for affordable segment customers. Empirical analysis is based on an extensive survey of 350 affordable segment urban households from Gujarat, which was carried out from the January to March 2015. The response rate was 76.57%. The form of the survey was a questionnaire, which was administered using face-to-face interviews with one adult from each household in their family. The sampled households were located in four towns in Gujarat: Mehsana, Ahmedabad, Junagadh and Vapi from different part of Gujarat to cover representation.

To cover the affordable housing customer, income group's criteria for this study have been prepared and finalized based on Task Force Report, 2012. The specifications with respect to EWS and LIG (A and B) for urban areas as recommended by this report However, for the category MIG West Bengal State Policy and KPMG Group Policy are available as Rs.15,000 to Rs. 40,000 per month and Rs. 3,00,000 to Rs. 10,00,000 lakhs per annum respectively. Based on above by authors, the following is considered for this research study:

Table 1: Income Category wise Group Specification

Income Category	Group	Urban
Below Rs. 7,500	EWS	Affordable Housing Customers
Rs. 7,501 to Rs. 15,000	LIG	
Rs. 15,001 to Rs. 30,000	MIG	

Size of houses for different categories are – Economic weaker section (EWS) – less than 300 sq. ft. carpet area; Low Income Group (LIG) – 300 to 500 sq. ft. carpet area; Middle Income Group (MIG) - 600-1200 sq. ft. carpet area.

5. Data Analysis and Interpretation:

5.1 Group Statistics:

The housing finance is mostly taken by male applicant (69%) as having main income in family, whereas less applicant are of female applicant. The registration, mortgage duty (tax) and special female applicant relief in interest rate made high female participation. Most applicant are married (75%) and majority are engaged in own business or private job as a main source of income. 62 % applicant had less than graduation education whereas only 6.58% had post-graduation found in applicants.

Most applicants found in the MIG (89%) category whereas no EWS category customer found under the survey. In distribution of affordable housing finance customers for interest rate selection, majority applicants (88%) have taken floating rate interest rate loan.

Table 2: Discription of Group Statistics

	Category	**Percentage**
Gender*	Male	69.03
	Female	30.97
Marital Status	Married	75.00
	Unmarried	19.73
	Divorced/ Widowed	5.27
Source of Main Income Occupation	Own Business	38.16
	Govt. Job	18.42
	Private Job	36.40
	Professional	4.39
	Agriculture Income & other	2.63
Education Qualification	Up to SSC	20.18
	Up to HSC/ Diploma / ITI	42.54
	Up to Graduate	30.70
	Up to Post Graduate & Above	6.58
Monthly Income Range	RS. 7501 TO RS. 15000	10.96
	RS. 15001 TO RS.22500	61.40
	RS. 22501 TO 30000	27.63
Interest Rate	Floating rate	87.71
	Fixed rate	12.29

** - First applicant considered in case of co-applicant presence. (Source: Primary Survey)*

5.2 Regression Analysis:

Regression analysis has been utilized to check the relationship between dependent and independent variables using SPSS version 20.0. Regression results show the significance of regression model and its explanatory power.

Table: Model Summary

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate
1	0.801[a]	0.642	0.636	0.36112

a. Predictors: (Constant), Cost, Convenience, Confidence, Service Quality

Regression analysis shows that the value of R^2 is 0.642, which indicates that there is 64.20% variation in selection of banks is explained by all the four independent variables, while 35.80% variation is due to those factors, which are not considered in this research model.

Table: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	52.231	4	13.058	100.133	0.000[b]
	Residual	29.080	223	0.130		
	Total	81.311	227			

a. Dependent Variable: Bank Type

b. Predictors: (Constant), Cost, Convenience, Confidence, Service Quality

The value of F is 100.133 and is significant ($p = 0.000 < 0.001$), thus showing the fitness of the research model. Moreover, the results also showed that all the independent variables i.e. service quality ($p = 0.018$), confidence ($p = 0.000$), convenience ($p = 0.000$) and cost ($p = 0.000$) have significant impact on dependent variable i.e. selection of housing loan provider.

Table: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-0.278	0.138		-2.018	0.045		
	Service Quality	0.110	0.046	0.120	2.388	0.018	0.639	1.566
	Confidence	0.213	0.031	0.302	6.981	0.000	0.855	1.169
	Convenience	0.190	0.026	0.316	7.232	0.000	0.842	1.187
	Cost	0.246	0.030	0.393	8.081	0.000	0.677	1.478

a. Dependent Variable: Bank Type

Cost is having strong positive relationship with the selection of housing loan provider (standardized coefficients beta = 0.393). The result indicates that 1 unit increase in cost will increase the chances of bank selection by 0.393. Furthermore, confidence and convenience are also having strong significant impact on selection of housing loan provider (standardized coefficients beta: convenience = 0.316; confidence = 0.302), thus indicating that with 1 unit increase in these both the factors, it will increase the chances of bank selection by 0.316 and 0.302 respectively. However, service quality is found to have less impact (standardized coefficients beta = 0.120) as compared to other three factors on the selection of housing loan provider . It meant that 1 unit increase in service quality will increase the chances of bank selection by 0.120. While evaluating collenearity statistics, to check multicollinearity, VIF and tolerance level has been checked and found that VIF is less than 2 which should be less than 10 and tolerance level found less than 1 which is acceptable in this study.

6. Conclusion:

In developing countries where economic situation is not stable, selecting a bank is an important decision. 250 questionnaires were distributed among bank customers. From this, 228 usable surveys were returned which demonstrated the positive relationship between all the studied variables. The findings of this research study reveals that people, particularly from developing countries, prefer those institutions in which they are having more confidence. As far as their confidence is concerned, they are only conscious about the bank’s liberal approval and reputation to avoid the frauds and they also like to take the mortgage products from the safe banks. Indian are highly money oriented. They like to avail the low cost products. They want to take financial products from those banks, which are charging them low interest rates and others charges.

After the detailed review of past literature, it was hypothesized that cost is negatively associated with the selection of the bank, but results are not in accordance with the expectations. People will prefer those bank, where service quality is better as compared to competitors. Some bank customers like to have assistance in their paper work while some do not like. They may feel a pressure on them. Mostly experienced customers do not like assistance with them, because they have much knowledge about the documents of the banks so they feel uncomfortable with the assistance.

However, the customers who have no much experience like assistance with them for paper work. Hence, there is positive relationship exists between these two variables. Convenience in the modern era has become important factor as well and shows that it effects the choice of bank significantly and it may be depending on the location of the banks as well the ease of understanding the terms and conditions of mortgage loans.

7. Limitations and Recommendations of the Study:

There are two limitations of this research study. *First*, the data for this study is collected only from the bank customers of Gujarat only. That's 'why, the findings of this study cannot be generalized to the other states of India. So in future, prospective researchers can do their researches in other states and compare the results of that studies with this study. *Second*, as all the independent variables are having significant relationship with the selection of the mortgage provider, so new explanatory variables may be added to increase the reliability of the research model.

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