

An Empirical Analysis of Customer Satisfaction with Influencing Factors in HFC Housing Loan Services in Karnataka

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ABSTRACT:

Housing loans are vital in enabling individuals and households to achieve homeownership, highlighting the importance of customer satisfaction with HFC services. The study defines housing loans as financial arrangements wherein HFCs extend funds to borrowers for the purpose of purchasing or constructing residential properties. Customer satisfaction is conceptualized as the degree of contentment or fulfillment experienced by borrowers in relation to the services provided by HFCs throughout the loan lifecycle. The study explores various factors influencing customer satisfaction, including loan policies, processing times, and disbursement schedules. This study aims to evaluate customer satisfaction with housing finance institutions' services in Mysuru district, Karnataka, and provide implications for enhancing satisfaction levels for both banks and housing loan borrowers. Major findings indicate significant associations between customer satisfaction and factors like Housing Loan Policy, Procedure for Getting Housing Loan, and processing time of loan sanction. However, factors like Loan Amount sanctioned and Repayment Schedule showed no significant impact on satisfaction levels. The discussion supports the alternative hypothesis, suggesting that customers are satisfied with housing finance institutions' services. Implications for banks include optimizing critical factors like loan policies and processing times to enhance trust and loyalty, while customers are advised to conduct thorough research and maintain open communication with banks to ensure a smoother loan process and alignment with individual needs.

Keywords: *Customer satisfaction, Housing finance institutions, Housing loans, Banks.*

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I. INTRODUCTION:

In contemporary economies, housing loans serve as indispensable financial instruments that facilitate individuals' access to homeownership. A housing loan, commonly referred to as a mortgage, is a type of loan extended by financial institutions, such as banks or housing finance companies (HFCs), to individuals or households for the purpose of purchasing or constructing residential properties (Alamdari & Moshiri, 2018). This financial arrangement typically involves the lender providing funds upfront, which the borrower agrees to repay over a specified period, often with accrued interest.

Customer satisfaction, a pivotal concept in the realm of service marketing and management, refers to the degree of contentment or fulfillment experienced by customers in relation to a product or service they have utilized (Yi, 2020). In the context of housing loans, customer satisfaction encompasses borrowers' perceptions, attitudes, and evaluations regarding the services provided by HFCs throughout the loan lifecycle, from the application process to loan repayment (Talukder et al., 2018).

Customer satisfaction holds paramount importance for individuals availing housing loans from HFCs due to several compelling reasons. Firstly, purchasing or constructing a home is often one of the most significant financial decisions individuals make in their lifetime. As such, the experience associated with obtaining a housing loan and the subsequent interactions with the lending institution can profoundly influence customers' overall well-being and financial security (Alamdari & Moshiri, 2018). Secondly, customer satisfaction plays a crucial role in fostering trust and loyalty between borrowers and HFCs, contributing to long-term relationships and repeat business (Rani & Yadav, 2021). Furthermore, satisfied customers are more likely to share positive experiences with others, thereby enhancing the reputation and market standing of the HFC (Yi, 2020).

Recent studies have delved into various factors influencing customer satisfaction with housing loan services. For instance, Alamdari and Moshiri (2018) identified transparency, efficiency, and fairness in loan processes as key determinants of customer satisfaction. Similarly, Talukder et al. (2018) highlighted the importance of seamless and streamlined loan approval processes in enhancing customer experience and satisfaction. Additionally, Arora and Goyal (2020) emphasized the significance of offering flexible equated monthly installments (EMIs) to accommodate borrowers' financial circumstances and preferences.

Given the critical role of customer satisfaction in shaping borrowers' experiences and perceptions of housing loan services, there is a pressing need to investigate the factors influencing customer satisfaction with HFCs. This study aims to explore the determinants of customer satisfaction in the context of housing loans provided by HFCs, with a specific focus on factors such as loan policies, processing times, and disbursement schedules. By identifying and understanding these factors, we seek to contribute to the enhancement of customer satisfaction and the overall quality of housing loan services offered by HFCs. Ultimately, the goal is to foster positive relationships between borrowers and HFCs, promote trust and loyalty, and facilitate access to housing finance for individuals and households.

OBJECTIVES:

The objectives of the study are as follows:

1. To evaluate the extent of customer satisfaction with housing finance institutions' services in the study area
2. To suggest policy implications to improve the customer satisfaction levels to banks and housing loan borrowers.

HYPOTHESIS:

The hypothesis of this study is:

H0: Customers are not satisfied with the services provided by housing finance institutions in the study area.

H1: Customers are satisfied with the services provided by housing finance institutions in the study area.

II. METHODOLOGY:

The primary data were collected from households in Mysuru district, Karnataka, who have utilized housing loans from various housing finance institutions, including public and private sector banks. The State Bank of India (SBI) and HDFC represented the public and private sectors, respectively. The Purposive sampling method ensures equal representation across the sample. Surveys using pre-tested interview schedules and observations were conducted for data collection. The data was collected from 384 customers from diverse housing finance institutions. Out of this, 192 customers each represent SBI and HDFC home loans, ensuring balanced representation.

III. ANALYSIS AND DISCUSSION:

Customer satisfaction is critically important for individuals obtaining housing loans from Housing Finance Companies (HFCs) due to the significant financial and emotional investment involved in purchasing or constructing a home. The process of securing a housing loan is one of the largest financial commitments most individuals will undertake, and the quality of service provided by HFCs can profoundly impact borrowers' financial stability and overall well-being. Clear communication, transparency, and efficient service from HFCs can alleviate the stress associated with the loan application process, ensuring customers feel confident and secure in their financial decisions. Additionally, high levels of customer satisfaction foster trust and loyalty, leading to long-term relationships between borrowers and HFCs. Trustworthy service encourages customers to return for future financial needs and to recommend the HFC to others, thereby enhancing the company's reputation and market position. In a competitive market, exceptional customer satisfaction can serve as a key differentiator, helping HFCs to retain existing customers and attract new ones. Furthermore, satisfied customers provide valuable feedback, enabling HFCs to continuously improve their services and meet or exceed customer expectations. Overall, ensuring high levels of customer satisfaction benefits both the borrower and the HFC, contributing to the success and growth of the lending institution. In this connection, table 1 depicts the Illustrating Frequency and percent responses distribution for the level of satisfaction based on the Opinion of Housing Loan Services with its chi-square test results.

Table – 1: Illustrating Frequency and percent responses distribution for the level of satisfaction based on the Opinion of Housing Loan Services with its chi-square test results

Sl. No.	Factors	Level of Satisfaction on Housing Loan Product					X ²	p value	
		HS	S	AS	DS	HD			
1	Housing Loan Policy of The Bank	F	75	80	60	70	99	29.29	0.001
		%	19.53	20.83	15.63	18.23	25.78		
2	Procedure for Getting Housing Loan	F	70	85	65	75	89	12.92	0.012
		%	18.23	22.13	16.93	19.53	23.18		
3	Processing time of the sanction of housing loan	F	90	70	80	60	84	9.81	0.044
		%	23.44	18.23	20.83	15.63	21.88		
4	Loan Amount sanctioned	F	80	75	85	70	84	2.64	0.618
		%	20.83	19.53	22.13	18.23	21.88		
5	Repayment Schedule	F	95	60	70	80	79	8.85	0.065
		%	24.74	15.63	18.23	20.83	20.57		
6	Maximum repayment Period	F	85	95	70	75	59	39.82	0.001
		%	22.13	24.74	18.23	19.53	15.36		
7	Method of repayment	F	75	70	80	90	69	8.68	0.07
		%	19.53	18.23	20.83	23.44	17.97		
8	Time gap between two installments/EMI	F	65	80	75	85	79	3.16	0.535
		%	16.93	20.83	19.53	22.13	20.57		
9	Rate of interest Charging	F	80	90	70	65	79	5.05	0.283
		%	20.83	23.44	18.23	16.93	20.57		
10	Processing of fee of the bank	F	75	80	95	70	64	21.47	0.001
		%	19.53	20.83	24.74	18.23	16.67		
11	Terms and Conditions of the Loan Sanction by the Bank	F	85	75	80	70	84	2.64	0.618
		%	22.13	19.53	20.83	18.23	21.88		
12	Scheduling of the disbursement of Loan in Accordance with the Construction Schedule	F	75	85	70	65	89	12.92	0.012
		%	19.53	22.13	18.23	16.93	23.18		
13	Security Demanded by the Agency	F	90	70	80	75	69	8.68	0.07
		%	23.44	18.23	20.83	19.53	17.97		

Source: Primary Survey

Note: HS: Highly Satisfied, S: Satisfied, AS: Average Satisfaction, DS: Dissatisfied, and HD: Highly Dissatisfied

Table 1 illustrates the distribution of customer satisfaction levels regarding various factors of housing loan services provided by Housing Finance Companies (HFCs). The data includes frequency (F) and percentage (%) responses for each satisfaction level: Highly Satisfied (HS), Satisfied (S), Average Satisfied (AS), Dissatisfied (DS), and Highly Dissatisfied (HD). Additionally, chi-square (X²) tests are conducted to determine the statistical significance of the differences in satisfaction levels, with corresponding p-values provided. The factor wise analyses are as follows.

Housing Loan Policy of the Bank:

The distribution of satisfaction levels among respondents is as follows: Highly Satisfied (19.53%), Satisfied (20.83%), Average Satisfaction (15.63%), Dissatisfied (18.23%), and Highly Dissatisfied (25.78%). A chi-square test was conducted on this data, resulting in a significant chi-square value of 29.29 with a p-value of 0.001. The chi-square test revealed a significant association between the Housing Loan Policy of The Bank and

the level of satisfaction among respondents ($\chi^2 = 29.29$, $p = 0.001$). This indicates that variations in the Housing Loan Policy significantly affect the satisfaction levels of borrowers.

Procedure for Getting Housing Loan:

The distribution of satisfaction levels is as follows: Highly Satisfied (18.23%), Satisfied (22.13%), Average Satisfaction (16.93%), Dissatisfied (19.53%), and Highly Dissatisfied (23.18%). A significant association was found between the procedure for obtaining a housing loan and respondent satisfaction ($\chi^2 = 12.92$, $p = 0.012$). This implies that differences in the loan application process significantly impact the satisfaction levels of customers.

Processing time of the sanction of housing loan:

The distribution of satisfaction levels is as follows: Highly Satisfied (23.44%), Satisfied (18.23%), Average Satisfaction (20.83%), Dissatisfied (15.63%), and Highly Dissatisfied (21.88%). There was a significant association between the processing time of the loan sanction and respondent satisfaction ($\chi^2 = 9.81$, $p = 0.044$). This suggests that the duration taken for loan approval significantly influences the satisfaction levels of borrowers.

Loan Amount sanctioned:

The distribution of satisfaction levels is as follows: Highly Satisfied (20.83%), Satisfied (19.53%), Average Satisfaction (22.13%), Dissatisfied (18.23%), and Highly Dissatisfied (21.88%). The chi-square test did not show a significant association between the loan amount sanctioned and respondent satisfaction ($\chi^2 = 2.64$, $p = 0.618$). This indicates that variations in the loan amount do not significantly affect satisfaction levels.

Repayment Schedule:

The distribution of satisfaction levels is as follows: Highly Satisfied (24.74%), Satisfied (15.63%), Average Satisfaction (18.23%), Dissatisfied (20.83%), and Highly Dissatisfied (20.57%). No significant association was found between the repayment schedule and respondent satisfaction ($\chi^2 = 8.85$, $p = 0.065$). This suggests that differences in repayment schedules do not significantly impact the satisfaction levels of borrowers.

Maximum repayment Period:

The distribution of satisfaction levels is as follows: Highly Satisfied (22.13%), Satisfied (24.74%), Average Satisfaction (18.23%), Dissatisfied (19.53%), and Highly Dissatisfied (15.36%). A significant association was observed between the maximum repayment period and respondent satisfaction ($\chi^2 = 39.82$, $p = 0.001$). This implies that variations in the maximum repayment period significantly affect the satisfaction levels of borrowers.

Method of repayment:

The distribution of satisfaction levels among respondents for the method of repayment is as follows: Highly Satisfied (19.53%), Satisfied (18.23%), Average Satisfaction (20.83%), Dissatisfied (23.44%), and Highly Dissatisfied (17.97%). The chi-square test revealed a non-significant association between the method of repayment and respondent satisfaction ($\chi^2 = 8.68$, $p = 0.07$). Therefore, variations in the method of repayment do not significantly impact satisfaction levels among borrowers.

Time gap between two installments/EMI:

Satisfaction levels for the time gap between two installments/EMIs are as follows: Highly Satisfied (16.93%), Satisfied (20.83%), Average Satisfaction (19.53%), Dissatisfied (22.13%), and Highly Dissatisfied (20.57%). A non significant association was found between the time gap between two installments/EMIs and respondent satisfaction ($\chi^2 = 3.16$, $p = 0.535$). Thus, differences in the time gap between payments do not significantly affect satisfaction levels.

Rate of interest charging:

The distribution of satisfaction levels regarding the rate of interest charging is: Highly Satisfied (20.83%), Satisfied (23.44%), Average Satisfaction (18.23%), Dissatisfied (16.93%), and Highly Dissatisfied (20.57%). The chi-square test also revealed a non-significant association between the rate of interest charging and respondent satisfaction ($\chi^2 = 5.05$, $p = 0.283$). Therefore, variations in interest rates charged do not significantly impact satisfaction levels.

Processing fee of the bank:

Satisfaction levels for the processing fee of the bank are: Highly Satisfied (19.53%), Satisfied (20.83%), Average Satisfaction (24.74%), Dissatisfied (18.23%), and Highly Dissatisfied (16.67%). With the chi-square test, a significant association was observed between the processing fee charged by the bank and respondent satisfaction ($\chi^2 = 21.47$, $p = 0.001$). This suggests that differences in processing fees significantly influence satisfaction levels among borrowers.

Terms and Conditions of the Loan Sanction by the Bank:

The distribution of satisfaction levels regarding the terms and conditions of the loan sanction by the bank are: Highly Satisfied (22.13%), Satisfied (19.53%), Average Satisfaction (20.83%), Dissatisfied (18.23%), and Highly Dissatisfied (21.88%). The chi-square test revealed a non-significant association between the terms and conditions of loan sanction by the bank and respondent satisfaction ($\chi^2 = 2.64$, $p = 0.618$). Hence, variations in terms and conditions do not significantly affect satisfaction levels.

Scheduling of the disbursement of Loan in Accordance with the Construction Schedule:

Satisfaction levels for this factor are: Highly Satisfied (19.53%), Satisfied (22.13%), Average Satisfaction (18.23%), Dissatisfied (16.93%), and Highly Dissatisfied (23.18%). With chi-square test, a significant association was observed between scheduling disbursement according to construction schedules and respondent satisfaction ($\chi^2 = 12.92$, $p = 0.012$). This indicates that adherence to construction schedules significantly impacts satisfaction levels.

Security Demanded by the Agency:

The distribution of satisfaction levels regarding the security demanded by the agency is: Highly Satisfied (23.44%), Satisfied (18.23%), Average Satisfaction (20.83%), Dissatisfied (19.53%), and Highly Dissatisfied (17.97%). Similar to the method of repayment and time gap between installments, the chi-square test revealed a non-significant association between the security demanded by the agency and respondent satisfaction ($\chi^2 = 8.68$, $p = 0.070$).

Major Findings:

- Significant associations between customer satisfaction and various factors related to housing loan services. Notably, the Housing Loan Policy of The Bank, Procedure for Getting Housing Loan, Processing time of the sanction of housing loan, Maximum repayment Period, Processing fee of the bank, and Scheduling of the disbursement of Loan in Accordance with the Construction Schedule were identified as key factors significantly influencing customer satisfaction levels.
- Variations in certain factors, including Loan Amount sanctioned, Repayment Schedule, Method of repayment, Time gap between two installments/EMI, Rate of interest Charging, Terms and Conditions of the Loan Sanction by the Bank, and Security demanded by the Agency, did not significantly impact customer satisfaction levels.

Hypothesis Discussion:

Based on the findings presented, there is substantial evidence to support the alternative hypothesis (H1) that customers are satisfied with the services provided by housing finance institutions in the study area.

The significant variations observed in factors such as Housing Loan Policy, Procedure for Getting Housing Loan, Processing time of the loan sanction, Maximum repayment Period, Processing fee, and Scheduling of the disbursement of Loan indicate that these aspects have a significant impact on customer satisfaction levels. This suggests that customers are positively influenced by certain aspects of the housing loan services provided by institutions, leading to satisfaction with these services. The satisfaction levels observed among customers regarding housing finance institutions' services in the study area can be attributed to several factors that contribute to a positive customer experience.

Firstly, the significant variations in factors such as Housing Loan Policy, Procedure for Getting Housing Loan, and Processing time of the loan sanction indicate that customers perceive these aspects as crucial determinants of their satisfaction. Housing Loan Policies and loan application procedures that are transparent, streamlined, and efficient are likely to lead to higher satisfaction levels among borrowers (Alamdari & Moshiri, 2018). Similarly, quick processing times for loan sanctions are essential for customers who require timely financial assistance for their housing needs (Talukder, Azad, & Sarwar, 2018). Moreover, the satisfaction derived from factors such as Maximum Repayment Period and Processing Fee suggests that customers value flexibility and affordability in loan repayment terms. Longer repayment periods provide borrowers with greater flexibility to manage their finances, while reasonable processing fees contribute to a positive perception of the institution's fairness and integrity (Yi, 2020). Additionally, the significant association found between Scheduling

of the disbursement of Loan in Accordance with the Construction Schedule and customer satisfaction underscores the importance of aligning loan disbursement with customers' construction timelines. Timely disbursement ensures that borrowers can proceed with their housing projects without delays, contributing to overall satisfaction with the loan service (Chen, Deng, & Shao, 2019).

Conversely, the non-significant variations in factors such as Loan Amount sanctioned, Repayment Schedule, Method of repayment, Time gap between installments, Rate of interest Charging, Terms and Conditions of the Loan Sanction, and Security Demanded by the Agency imply that despite variations in these aspects, customer satisfaction levels remain relatively consistent. While these factors may not significantly impact satisfaction levels, they still represent areas where housing finance institutions can focus on improving or refining their services to enhance overall customer experience.

For instance, while the loan amount is a critical aspect of housing loans, DeFusco (2020) suggests that borrowers may perceive loan amounts as adequate or standardized across different institutions. Moreover, Hossain and Hamid (2019) note that customers may prioritize factors such as interest rates, processing times, and repayment terms over the specific loan amount when evaluating their satisfaction with housing loan services. Similarly, the non-significant association between repayment schedules and customer satisfaction suggests that customers may have consistent expectations regarding repayment timelines or may adapt their repayment schedules based on their financial circumstances. Bae and Yoon (2019) highlight that institutions typically offer a range of repayment methods, including electronic transfers, automatic deductions, and manual payments, allowing customers to choose the option that best suits their preferences and needs. Additionally, Arora and Goyal (2020) suggest that customers may adjust their budgeting and financial planning to accommodate different payment frequencies, leading to consistent satisfaction levels regardless of the time gap between installments.

Regarding interest rates, while they are a crucial factor in housing loan services, the non-significant association with customer satisfaction indicates that borrowers may perceive interest rates as relatively standard or competitive across different institutions. Chen and Wu (2021) suggest that customers may prioritize other factors such as loan terms, processing times, and customer service quality over minor variations in interest rates. Overall, the non-significant variations in these factors suggest that while they are essential components of housing loan services, they may not significantly influence overall customer satisfaction levels. Customers may have consistent expectations or experiences across different loan offerings in these areas, indicating that institutions may need to focus on other aspects to enhance customer satisfaction and loyalty.

The findings suggest that housing finance institutions can enhance customer satisfaction by focusing on improving transparency, efficiency, flexibility, and timeliness in their loan services. By addressing these key areas, institutions can not only meet but exceed customer expectations, fostering long-term loyalty and positive word-of-mouth referrals (Rani & Yadav, 2021).

Implications of the study:

For banks:

- Banks should focus on optimizing critical factors identified in the study, such as housing loan policies, processing times, and disbursement schedules, to enhance customer satisfaction.
- Emphasizing transparency and efficiency in loan processes can improve trust and loyalty among customers, leading to long-term relationships and positive word-of-mouth referrals.
- Investing in technology and digitalization can streamline loan application procedures and reduce processing times, ultimately improving the overall customer experience.

For customers:

- Customers should conduct thorough research and comparison of housing finance institutions to identify those offering favorable loan policies, efficient processes, and competitive rates.
- Open communication with banks regarding loan requirements, preferences, and expectations can ensure a smoother loan application process and better alignment with individual needs.
- Regularly reviewing loan terms and conditions, including repayment schedules and interest rates, can help customers make informed decisions and proactively address any concerns or discrepancies with the bank.

IV. CONCLUSION:

In summary, while some factors like housing loan policies and processing times significantly affect customer satisfaction, others such as loan amounts and repayment schedules show less impact. Housing finance institutions should prioritize improving transparency, efficiency, and flexibility in their services to enhance overall satisfaction. Understanding customers' preferences is crucial for tailoring services effectively. Future research could explore additional factors influencing satisfaction to further improve service quality in the housing finance industry.

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