
A Study on Customer Preferences in Home Loans Market

*Swaranjeet Arora**, *Anukool M. Hyde***, *H. B. Singh****

ABSTRACT

Banks in their effort to satisfy the client's needs, successfully focus on mortgage products. With the development of increasingly complex mortgage instruments, it has become important to consider the process by which the consumer chooses among these instruments. The real estate literature does not address how the customer of mortgage instruments make trade-offs among the different instruments. An attempt has been made to analyze the behavior of customers who have taken home loans on the basis of viewpoints of bankers who have been involved in granting the loans. Results of this survey point out that the Price of the service offered has been the major competitive advantage in the market of home loan as it is the major choice criterion for customers besides Customer Relationship Management, Customized Product Features, Marketing Strategies, Tax Benefit, Age- Tenure Relationship and all these factors that together contribute to the formation of competitive advantage for a Bank.

Key Words : *Home Loan Market, Customer Preference, Financial Services, Bank Marketing Strategies*

INTRODUCTION

With liberalization of the financial market, the banking system has undergone important changes globally. In this era of change, the banking sector has been involved in lots of activities in terms of consolidation, capital market participation, technology advancements and improvements in banking sector practices. Increased competition, technological developments and the growth of the various institutions have significantly altered the environment in which banks operate. Legislative liberalization has strengthened competition not only among banking institutions but also among other non-banking organizations. Entry of various global players has resulted in the fall in prices of bank products and banking profits. Changes in customer behavior have also induced changes in decisions related to high quality services offered to

satisfy today's demanding clients. Prices of bank products must be proportional to their perceived values. Hence, it is very important to examine the

*** Ms. Swaranjeet Arora**
Faculty, Prestige Institute of Management and Research, Indore, Indore (M.P.), email: swaran_jeet76@yahoo.co.in
**** Dr. Anukool M. Hyde**
Reader, Prestige Institute of Management and Research, Indore, Indore (M.P.), anukool_h@rediffmail.com
***** Mr. H. B. Singh**
Retd. General Manager, Bennett Pharmaceuticals Ltd., Baroda, 503, Vishnupuri Ext., Indore (M.P.) Pin- 452001 harbhajan_harbhajan52@yahoo.co.in

factors that have a positive impact on the consumer purchasing decisions so that banks can create the appropriate marketing strategy.

LITERATURE REVIEW

A number of researchers have also studied the bank choice criteria in a particular ethnic, cultural or religious context (Devlin and Ennew, 2005). Machauer and Morgner (2001) explored demographic differences by concentrating on expected benefits and attitudes that could enhance a bank's ability to address the conflict between individual service and cost-saving standardization. Using cluster analysis, segments were formed based on combinations of customer ratings for different attitudinal dimensions and benefits of bank services. Schlesinger *et al.* (1987) found that the three most important factors in selecting a bank were lending rates, accessibility of borrowing, and the number of services offered. Boyd W. *et al.* (1994) revealed that reputation, interest charged on loans, and interest on savings accounts are more importance than other criteria such as friendliness of employees, modern facilities, and drive-in-service. Breslaw *et al.* (1996) identified that borrowers react to market conditions in a risk averse and cost minimizing manner. Devlin and Gerrard (2004) showed that the influence of recommendations is the most important choice criterion by banking customers. Other factors being offering of incentives, the wide product range, the interest rate paid and the relevant fees and charges. Buerger and Ulrich (1986) identified that the price of service was considered to be an important factor while selecting a bank. Turnbull and Gibbs (1989) however found that the price was not a significant factor in bank selection for the large business customer. Studies have also found that confidentiality and professionalism were the most important criteria while deciding about a bank (Prince and Schultz, 1990; Freeman and Turner, 1990). Talaga and Buch (1998) explored the factors that attract customers for choosing a mortgage loan on parameters like number of points, additional fees, reputation of the lender, type of mortgage and term in years of mortgage. The most important variable to the respondents was thought to be additional costs and the second most important variable was the number of points. Kennington *et al.* (1996) identified that reputation, price and service, were the key

variables that consumers consider while evaluating a bank.

In the case of mortgages, the professional advice is the most important factor for all customers, but is more important for the young customers of financial services. Also for the younger customers, the interest rate as a mortgage choice criterion is important. Arora *et al.* (1985) identified that factors influencing customers' choice for selecting a bank are based on the dependability of institution, convenience, accessibility, ease of transactions, variety of services and size of institution, availability of loans and interest-competitiveness. McKechnie (1992) explored that dependability and size of the institution, location, convenience and ease of transactions, professionalism of bank personnel and availability of loans are some of the common criteria for the choice of a bank.

RESEARCH METHODOLOGY

Research type : Exploratory
Sampling technique : Simple random technique
Sampling unit : employees of banking institutions of Indore (MP).
Sample size : 80
Tools for data collection: Questionnaire
A questionnaire has been prepared which consist of 20 questions and it has been administered on employees of banks.
Tools for data analysis : Factor analysis

OBJECTIVES

1. To explore factors influencing the customers preference towards housing loan schemes of various banks.
2. To evaluate these factors in order of the customer preference.
3. To offer suggestions for improving the product features so that they can be useful to service providers.

FACTOR ANALYSIS AND DISCUSSIONS

20 variables used for the factor analysis were coded using the five-point Likert Scale. Table 1 in the appedix provides the varimax rotated factor loadings against these 20 variables measuring preference level in Home

Loan market. This was obtained in 7 iterations through SPSS (Version 10). Factor analysis using Varimax rotation finds six derived factors, each having Eigen value greater than unity. In the rotated factor matrix, variables are grouped under their respective derived factors. Thus, 20 variables were then loaded on six factors.

Eigen values of all the six factors are 7.362, 2.378, 2.213, 1.432, 1.384 and 1.061 respectively. The total variance accounted for by all the nine factors was 79.16% which is quite reasonable, and this establishes the validity of the study. Naming the factor has been done on the basis of the size of factor loading of the variables. Greater a factor loading for a variable, greater are the chance of the factor being named after this specified variable. Table 2 depicts variables under each of six derived factors and all the six factors are explained below:

- 1. Price of Services Offered:** It refers to costs of services available to the end user and includes processing fee, processing time, interest installment etc. It is measured by items 6, 7, 2, 15 and 3. Variable 6 is the strongest and explains 18.40% variance and has a total factor load of 0.854.
- 2. Customer Relationship Management:** It means maintaining a relationship of mutual advantage among customers, employees & bank management. It is measured by items 10, 11 and 19. Variable 10 is the strongest and explains 15.53% variance and has a total factor load of 0.898.
- 3. Customized Product Features:** It refers to all the added features that suits customer requirements and are additional to the core components of the product. It is measured by items 20, 18, 16, 9 and 12. Variable 20 is the strongest and explains 14.29% variance and has a total factor load of 0.890.
- 4. Marketing Strategies:** It is a process that allows an organization to concentrate its limited resources on the greatest opportunities to increase sales and achieve a sustainable competitive advantage. It is

measured by items 5, 14, 4 and 8. Variable 5 is the strongest and explains 12.70% variance and has a total factor load of 0.826.

- 5. Tax Benefit:** It simply means the benefit of tax given on housing loan installments. It is measured by items 17 and 1. Variable 17 is the strongest and explains 09.90% variance and has a total factor load of 0.751.

- 6. Age- Tenure Relationship:** It reflects relationship between amount of loan taken and age profile of the customer. It is measured by item 13 and explains 08.31% variance and has a total factor load of 0.84.

Conclusion

The present study looks at customer preference for home loan market and identifies factors which influence customers' bank selection and future relationship with the bank. The study reveals that the service attributes are important for customers and these determine their decision of cooperating with the bank. An accurate appreciation of choice criteria may aid bank marketers in their attempts to deliver offers which will influence the customer choice's. According to research findings, the price of the service offered continues to be a major competitive advantage in the market of bank services as it is the major choice criterion for customers besides Customer Relationship Management, Customized Product Features, Marketing Strategies, Tax Benefit, and Age-Tenure Relationship and all these factors together constitute competitive advantage of banking services. Factors identified in the study provide key information inputs regarding customers' preference and by using them a bank may be able to differentiate themselves in the competitive environment and gain a sustainable competitive advantage. This will enable them to attract new customers and build effective long-term relationships with them.

References

Avery, R. B., Bostic R. W., Calem P.S. and Canner G.B. (1997). "Changes in the distribution of banking offices", Federal Reserve Bulletin, Vol. 83, No. 9, pp. 707-25.

- Avkiran, N.K. (1999). "Quality customer service demands human contact", *International Journal of Bank Marketing*, Vol. 17 No. 2, pp. 61-71.
- Black, H. A., Robinson, B. L., Schlottmann, A. M. and Schweitzer, R. L., (2003). "Is Race an Important Factor in Bank-Consumer Preferences? The Case of Mortgage Lending", *Journal of Real Estate Finance and Economics*, 26:1, pp.5-26
- Bostic, R. W. and Canner G. B. (1997). "Do Minority-owned Banks Treat Minorities Better? An empirical Test of the Cultural Affinity Hypothesis", Working Paper, Board of Governors of the Federal Reserve System.
- Boyd, W. L., Leonard, M. and White, C. (1994). "Customer Preferences for Financial Services: An Analysis." *International Journal of Bank Marketing*, Vol. 12, No. 1, pp. 9-15.
- Breslaw, J., Irvine, I. and Rahman, A. (1996). "Instrument Choice: The Demand for Mortgages in Canada", *Journal of Urban Economics*, 39, pp. 282-302
- Chan, A.K.K. and Ma, V.S.M. (1990). "Corporate banking behavior: a survey in Hong Kong", *International Journal of Bank Marketing*, Vol. 8 No. 2, pp. 25-31
- Clarkson, A. H., Stone, M. A. and Steele, M. J. (1990). "Competitive Strategies in Banking Services- Implications of Segmentation Analysis of Consumers by Age Groups", *International Journal of Service Industry Management*, Vol. 1.2, pp. 67-77.
- Combe, I.A. and Botschen, G. (2004). "Strategy paradigms for the management of quality: dealing with complexity", *European Journal of Marketing*, Vol. 38 Nos 5/6, pp. 500-523.
- Denton, L. and Chan, A.K. (1991). "Bank selection criteria of multiple bank users in Hong Kong", *International Journal of Bank Marketing*, Vol. 9 No. 5, pp. 23-35.
- Devlin, J.F. (2002a). "An analysis of choice criteria in the home loans market", *International Journal of Bank Marketing*, Vol. 20 No. 5, pp. 212-26.
- Devlin, J.F. (2002b). "Customer knowledge and choice criteria in retail banking", *Journal of Strategic Marketing*, Vol. 10 No. 4, pp. 273-90.
- Devlin, J.F. and Gerrard, P. (2004). "Choice criteria in retail banking: an analysis of trends", *Journal of Strategic Marketing*, Vol. 12 No. 1, pp. 13-27.
- Devlin, J.F. and Ennew, C.T. (2005). "How the young choose financial services: a quantitative analysis", 34th EMAC Proceedings, University Bocconi, Milan.
- Elliot, M.B., Shatto, D. and Singer, C. (1996). "Three customer values are key to marketing success", *Journal of Retail Banking Services*, Vol. 18 No. 1, pp. 1-7.
- Frei, F.X. and Harker, P.T. (1999). "Measuring the efficiency of service delivery processes", *Journal of Service Research*, Vol. 1 No. 4, pp. 300-312.
- Harrison, T. (2003). "Understanding the behaviour of financial services consumers: a research agenda", *Journal of Financial Services Marketing*, Vol. 8 No. 1, pp. 6-9.
- Khazeh, K. and Decker, W.H. (1992). "How customers choose banks", *Journal of Retail Banking*, Vol. 14 No. 4, pp. 41-44.
- Kaynak, E., Kucukemiroglu, O. and Odabasi, Y. (1991). "Commercial bank selection in Turkey", *International Journal of Bank Marketing*, Vol. 9 No. 4, pp. 30-40.
- Kaynak, E. and Kucukemiroglu, O. (1992). "Bank and product selection in Hong Kong", *International Journal of Bank Marketing*, Vol. 10 No. 1, pp. 3-17.
- Kennington, C., Hill, J. and Rakowska, A. (1996). "Customer selection criteria for banks in Poland", *International Journal of Bank Marketing*, Vol. 14 No. 4, pp. 12-21.
- Kothari, C.R. (2000). "Research Methodology", *Wishwa Prakashan*
- Krishnan M., Ramaswamy V., Meyer M.C., and Damien P. (1999). "Customer satisfaction for financial services: the role of products, services and information technology", working paper, No. 99-004, University of Michigan Business School, Ann Arbor, MI.

-
- Laroche, M., Rosenblatt, J.A. and Manning, T. (1986). "Services used and factors considered important in selecting a bank: an investigation across diverse demographic segments", *International Journal of Bank Marketing*, Vol. 4 No. 1, pp. 35-55.
- Lovelock, C. H. (1996). "Services Marketing", Prentice Hall, Upper Saddle River, NJ
- Machauer, A. and Morgner, S. (2001). "Segmentation of bank customers by expected benefits and attitudes", *International Journal of Bank Marketing*, 19/1, pp. 6-17.
- Meidan, A (1996). "Marketing Financial Services", Macmillan Press Ltd, London.
- McKechnie, S. (1992). "Consumer buying behaviour in financial services: an overview", *International Journal of Bank Marketing*, Vol. 10 No. 5, pp. 4-12.
- Orlow, D.K., Radecki L.J. and Wenninger J (1996). "Ongoing restructuring of retail banking", Research paper, No 9634, Federal Reserve Bank of New York, New York, NY.
- Reeves, C.A. and Bednar, D.A. (1996). "Keys to market success - a response and another view", *Journal of Retail Banking Services*, Vol. 18 No. 4, pp. 33-40.
- Rosenblatt, J., Laroche, M., Hochstein, A., McTavish, R. and Sheahan, M. (1988). "Commercial banking in Canada: a study of the selection criteria and service expectations of treasury officers", *International Journal of Bank Marketing*, Vol. 6 No. 4, pp. 19-30.
- Stafford, M. R., (1996). "Demographic discriminators of service quality in the banking industry", *The Journal of Services Marketing*, Vol. 10, pp. 6-22.
- Talaga, J. A and Buch J., (1998). "Consumer trade-offs among mortgage instrument variables", *International Journal of Bank Marketing*, 16/6, pp. 264-270.
- Turnbull, P.W. and Gibbs, M.L. (1987). "Marketing bank services to corporate customers: the importance of relationships", *International Journal of Bank Marketing*, Vol. 5 No. 1, pp. 19-26.
- Zigmund, W. (2003). "Business Research Methods", South Western Pub.7e.

Annexure:

Table 1: Rotated Factor Matrix

Variables	Attributes	F1	F2	F3	F4	F5	F6
V1	Tax rebate					0.642	
V2	real estate prices	0.686					
V3	interest rates	0.649					
V4	Age Profile				0.664		
V5	Insurance coverage				0.826		
V6	processing time	0.854					
V7	Processing fee	0.834					
V8	services				0.586		
V9	Customized EMI			0.623			
V10	prepayment penalty Wave off		0.898				
V11	Administration & Inspection charges		0.848				
V12	Down payment requirement			0.452			
V13	Age-Tenure relationship						0.847
V14	marketing strategy				0.721		
V15	Time lag	0.653					
V16	stamp duty			0.630			
V17	Loan type					0.751	
V18	formalities			0.655			
V19	behavior		0.641				
V20	Add on features			0.890			
Eigen value		7.362	2.378	2.213	1.432	1.384	1.061
Cumulative variance		18.41%	33.93%	48.24%	60.94%	70.84%	79.16%

Note: F1, F2, F3, F4, F5 and F6 are the six derived factors.

Table- 2: Factors of Customer Preference in the Home Loans Market

Factor-1	Factor-2	Factor-3	Factor-4	Factor-5	Factor-6
Price of the services offered	Customer relationship management	Customized product features	Marketing strategies	Tax benefit	Tenure relationship
Processing time (2.375)	Prepayment penalty Wave off (2.4)	Add on features (1.925)	Insurance coverage (3.05)	Loan type (2.4)	Age-Tenure relationship (2.525)
Processing fee (2.425)	Administration & Inspection charges (2.375)	Formalities (2.05)	Marketing strategy (2.125)	Tax rebate (2.125)	
Rreal estate prices (2.7)	Behavior (1.95)	Stamp Duty (2.65)	Age Profile (2.325)		
Time lag (2.225)		Customized EMI (2.125)	Services (2.325)		
Interest Rates (2.675)		Down payment requirement (2.55)			

The figures in parenthesis represent the average scores for the variables under each Factor that determine preference level for Home Loan Market.