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MEASURING THE LEVEL OF PROBLEMS FACED BY THE CUSTOMERS TAKING THE LOAN FROM PUBLIC AND PRIVATE SECTOR BANKS IN INDIA

Khushbu Kasliwal Research Scholar, University of Rajasthan, Jaipur
Dr. C. P. JAIN Retired Professor, Department of ABST University of Rajasthan, Jaipur

Abstract
The purpose of this paper is to appraisal of the loan seekers view from the perspective of the problem faced by them for taking the loan from public and private sector banks in India. For this purpose, the primary data of 323 bank customers obtained loan from them were gathered using a structured questionnaire regarding loan facility provided by public and private Sector Banks in Indian economy. To collect the data judgmental sample is collected from 6 selected banks hey including SBI, BOB and PNB from the Public sector bank customers and ICICI, HDFC and Axis Banks. For analysis purpose first to identify the variables for the general perception to full fill the objectives of the research, Multiple regression analysis and to measure the difference between the Public and private sector banks Independent Samples t test is used. The results revealed with the reasons why the respondents believed that the that there is a problem regarding loan facility provided by private Sector Banks in India. Further, the difference between customers of Public and private sector banks is statistically significant regarding loan facility provided by Banks in India that is more than the public sector banks

Keywords*: problems, loan customers, public sector banks and private sector banks.*

Introduction

A Mortgage borrowers can be individuals mortgaging their home or they can be businesses mortgaging commercial property (for example, their own business premises, residential property let to tenants, or an investment portfolio). The lender will typically be a financial institution, such as a bank, credit union or building society, depending on the country concerned, and the loan arrangements can be made either directly or indirectly through intermediaries. Features of mortgage loans such as the size of the loan, maturity of the loan, interest rate, method of paying off the loan, and other characteristics can vary considerably. The lender's rights over the secured property take priority over the borrower's other creditors, which means that if the borrower becomes bankrupt or insolvent, the other creditors will only be repaid the debts owed to them from a sale of the secured property if the mortgage lender is repaid in full first (Lee and Kozar, 2008).

In many jurisdictions, it is normal for home purchases to be funded by a mortgage loan. Few individuals have enough savings or liquid funds to enable them to purchase the property outright. In countries where the demand for home ownership is highest, strong domestic markets for mortgages have developed. Mortgages can either be funded through the banking sector (that is, through short-term deposits) or through the capital markets through a process called "securitization", which converts pools of mortgages into fungible bonds that can be sold to investors in small denominations (Lian and Lin, 2008).

Recent Financial Services Authority guidelines to UK lenders regarding interest-only mortgages has tightened the criteria on new lending on an interest-only basis. The problem for many people has been the fact that no repayment vehicle had been implemented, or the vehicle itself (e.g. endowment/ISA policy) performed poorly and therefore insufficient funds were available to repay balance at the end of the term.

Moving forward, the FSA under the Mortgage Market Review (MMR) have stated there must be strict criteria on the repayment vehicle being used. As such the likes of Nationwide and other lenders have pulled out of the interest-only market (Amin, 2017a).

A resurgence in the equity release market has been the introduction of interest-only lifetime mortgages. Where an interest-only mortgage has a fixed term, an interest-only lifetime mortgage will continue for the rest of the mortgagor's life. These schemes have proved of interest to people who do like the roll-up effect (compounding) of interest on traditional equity release schemes (Amin, 2017b). They have also proved beneficial to people who had an interest-only mortgage with no repayment vehicle and now need to settle the loan. These people can now effectively re-mortgage onto an interest-only lifetime mortgage to maintain continuity (Devlin, 2002).

REVIEWS OF LITERATURE

In consideration of the strategic significance of the housing sector in the emerging Indian economy and the government's major policy thrust to encourage banks' housing finance portfolio particularly in the context of on- going recession, the findings of the study would be very useful to the policy makers, practicing bankers, researchers, academicians and other stake holders. Based on the findings of the study, specific suggestions / recommendations were made for fine tuning the public and private sector banks' focus on lending policies and priorities with a view to improve the outreach and to avoid the emerging problems of subprime lending.

Carvalho, D., Ferreira, M. A., & Matos, P. (2015)[i] study the transmission of bank distress to nonfinancial firms from 34 countries during the 2007–2009 financial crisis using systemic and bank-specific shocks. We find that bank distress is associated with equity valuation losses and investment cuts to borrower firms with the strongest lending relationships with banks. The losses are not offset by borrowers' access to public debt markets and are concentrated in firms with the greatest information asymmetry problems and weakest financial positions. Our findings suggest that public debt markets do not mitigate the effects of relationship bank distress during financial crises.

Das, S. R., & Kim, S. (2014)[ii] discusses how to restructure a portfolio of distressed debt and what the gains are from doing so, and attributes these gains to restructuring and portfolio effects. This is an interesting and novel problem in fxed-income portfolio management that has received scant modeling attention. We show that debt restructuring is Pareto improving and lucrative for borrowers, lenders, and investors in distressed debt. First, the methodological contribution of the paper is a parsimonious model for the pricing and optimal restructuring of distressed debt, i.e., loans that are under-collateralized and are at risk of borrower default, where willingness to pay and ability to pay are at issue. Distressed-debt investing is a unique portfolio problem in that a) it requires optimization over all moments, not just mean and variance, and b) with debt restructuring, the investor can endogenously alter the return distribution of the candidate securities before subjecting them to portfolio construction. Second, economically, we show that post-restructuring return distributions of distressed debt portfolios are attractive to fixed-income investors, with risk-adjusted certainty equivalent yield pickups in the hundreds of basis points, suggesting the need for more efficient markets for distressed debt, and shedding light on the current policy debate regarding the use of eminent domain in mitigating real estate foreclosures.

De Haas, R., & Knobloch, S. (2010)[iii] reviewed the origin and spread of the distressed debt problem in the transition region. We argue that while the crisis was triggered abroad, the current high level of distressed debt in various transition countries mainly reflects home-grown vulnerabilities. As in the West, the root causes of the debt problem were abundant and cheap funding and a gradual relaxation of banks' lending standards – in particular an excessive reliance on rising real estate values. We document a strong positive relationship between pre-crisis house price increases, house price collapses during the crisis and subsequent increases in non-performing loans (NPLs). Policy options to deal with distressed debt range from decentralised approaches in which banks restructure NPLs on a case-by-case basis to more centralised options, such as a "London approach", bad banks, or asset management companies. Centralised options may be called for if case-by-case debt restructuring is suboptimal from

a system-wide perspective because of negative externalities or capacity constraints in either the banking or the judicial system.

Fitch, C., Hamilton, S., Bassett, P., & Davey, R. (2011)[iv] evaluated the evidence on the extent to which personal debt impacts on mental health, and mental health on personal debt. The paper systematically reviews the English-language, peer-reviewed literature, 1980-2009, drawing on 14 databases across the medical, business, legal, and social science fields. From 39,333 potential papers identified, 39,283 were excluded, and 50 were reviewed using a narrative analysis approach. Among nine longitudinal studies, three controlled for psychiatric morbidity or psychological wellbeing at baseline, income/wealth, and other socio-economic variables. From these, two reported indebtedness or an increase in debt levels associated with subsequently poorer mental health, while one study found no such relationship. While methodological limitations make it difficult to definitively demonstrate whether indebtedness causes poorer mental health, plausible data exist which indicate that indebtedness may contribute to the development of mental health problems, and mediate accepted relationships between poverty, low income, and mental disorder. Existing research either uses definitions of "debt" which lack specificity, or definitions of "mental health" which are too broad-brushed. A more sensitive set of core questions is needed. Further longitudinal research is also a key priority. Those working with people with debt problems need to be aware of the potential risk of reduced mental wellbeing or mental disorder.

Keese, M., & Schmitz, H. (2014)[v] analyse the association between household indebtedness and different health outcomes using data from the German Socio-Economic Panel from 1999 to 2009. We control for unobserved heterogeneity by applying fixed-effects methods and furthermore use a subsample of constantly employed individuals plus lagged debt variables to reduce problems of reverse causality. We apply different measures of household indebtedness, such as the percentage shares of household income spent on consumer credit and home loan repayments (which indicate the severity of household indebtedness) and a binary variable of relative over-indebtedness (which indicates a precarious debt situation). We find all debt measures to be strongly correlated with health satisfaction, mental health, and obesity. This relationship vanishes for obesity after controlling for unobserved heterogeneity while it stays significant with respect to worse physical and mental health.

Liu, M. Y., & Rosenberg, M. C. B. (2013)[vi] explained that the private non-financial sector in Europe is facing increased challenges in meeting its debt servicing obligation. With debt levels generally high and still rising, and the economic recovery halting, the problem is concentrated in several countries in the EU periphery and Eastern Europe. In a few cases, it is particularly pronounced for the household sector, which is a novel feature of the present crisis—at least to the extent that it concerns emerging markets. There is an increased recognition that in certain circumstances an NPV-reducing restructuring of private debts is necessary to create the conditions for a sustained recovery.

Singh, S., Bhogal, S., & Singh, R. (2014)[vii] The ongoing agrarian crisis in Punjab is becoming a centrestage issue as the farmers are reeling under debt arising from stagnant productivity and low profitability. The total debt burden on Punjab farmers is estimated to be Rs. 22943 crores and the debt per farm household is Rs. 218092. The level of education, non-farm income, farm size and non-institutional credit were the main factors which affect the level of farmers' indebtedness. The farmers face a large number of problems in availing institutional credit which drives them to fall into the debt trap of the crafty and exploitative non-institutional sources of credit. There is a need to strengthen the existing credit delivery system to accelerate growth of the farming sector for evacuating the peasantry from the incessant debt trap.

Swanton, T. B., & Gainsbury, S. M. (2020)[viii] expressed that People experiencing problems with gambling may use consumer credit to cover expenses and/or continue gambling. This may contribute to debt problems and psychological distress, both of which may have pre-existed (and potentially motivated) their gambling. This review found little empirical investigation of patterns of consumer credit use by gamblers, despite borrowing money being a diagnostic criterion for gambling disorder and financial harms being one of the most commonly reported problems. Research suggests that consumer credit use and debt problems increase with problem gambling severity. Gambling-related debt problems increase the likelihood of experiencing poor psychosocial functioning, including

psychological distress, substance use, adverse family impacts, crime, and suicidality. Communities and governments are calling for more socially responsible conduct by financial institutions, which increasingly recognise the potentially harmful impacts of credit provision on the well-being of customers experiencing gambling problems. Policies and interventions are needed relating to consumer credit, debt, and gambling to enhance customers' financial and psychosocial well-being.

Teresa, B. F. (2016)[ix] revealed that Since 2001 investors have purchased rent-regulated housing in New York City with heightened expectation for financial performance, placing pressure on tenants and communities through increasing rents, harassment, eviction, and when financial targets are not met, physical deterioration of buildings. At the heart of this investment strategy is fictitious capital, the extension of credit based on assumptions about future events. This paper shows that beyond assessments about the "truth" or rationality of the expectations underlying fictitious capital, the management of value as a problem is at stake. When the expectations underlying fictitious capital are not realized, a network of actors engage in a set of legal–financial practices to manage the value of rent-regulated multifamily buildings, including banking regulation and its exception, mortgage securitization and special servicing, distressed debt markets, rent stabilization, and foreclosure law. The breakdown of the assumptions of fictitious capital reveals new challenges and opportunities for tenant activism and policy to intervene in preserving rent-regulated housing. The paper focuses on how this financialization of housing not only serves as a moment for the increasing role of financial actors and imperatives, but also how it drives tenant activism and policy to engage legal–financial practices to redefine the tenant–landlord relationship and to tie financial expectations more closely to the material reality of tenants and communities.

M. Mahadeva (2004)[x] has analyzed the nature and distribution of the housing problem in Karnataka and examined how the state has addressed this issue. In particular, it considers the strategies adopted during the 90s and identifies a number of failures including the task force on housing. Some of the major weaknesses, pertaining. The study covers three institutions viz. HDFC, LIC & PNB. The study is based on secondary data that have been collected from the annual reports and web sites of the institutions selected under study. It covers the period from 1990-91 to 2002-03. The performance of the selected institutions has been studied by using percentages, compound growths rates and various ratios.

RESEARCH METHODOLOGY

The sample of this study is confined to three public sector banks (State Bank of India, Punjab National Bank, Bank of Baroda) and three private sector banks (ICICI Bank, HDFC Bank, Axis Bank) of India. For the purpose of the current study, the responses are gathered using the structured questionnaire which was provided to the 600 respondents i.e., 100 of each bank, from the respondents have taken house loan from the selected banks and ready to take part in our study, in equal ratio from each bank. The final primary data used in the study is gathered using the questionnaire, prepared using the 5 points Likert scale to assess the general perception of the 323 customers regarding loan facility provided by public and private Sector Banks in Indian economy.

First to identify the variables for the general perception to full fill the objectives of the (Chin, 2010; Dar, 2002; Devlin, 2002; Churchill, 1979) research, Multiple regression analysis was used with one way ANOVA. The same is followed by the Independent Samples t test to measure the difference between the Public and private sector banks to full fill the stated objectives with the hypothesis stated in the Paper.

DATA ANALYSIS

As per the aim of the study is to measure the problem faced by banks in India the data is gathered from the 323 customers were gathered and the same is used for to identify the general perception with the multiple regression method as under:

Table-1: Multiple Regression analysis for measuring problem faced by customers

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.310[a]	.096	.093	.73057	.096	34.097	1	321	.000
2	.411[b]	.169	.164	.70146	.073	28.205	1	320	.000
3	.490[c]	.240	.233	.67208	.071	29.586	1	319	.000
4	.570[d]	.324	.316	.63457	.085	39.829	1	318	.000
5	.614[e]	.376	.367	.61061	.052	26.440	1	317	.000
6	.622[f]	.387	.375	.60645	.010	5.363	1	316	.021
7	.628[g]	.394	.381	.60364	.008	3.953	1	315	.048
8	.635[h]	.403	.388	.60005	.009	4.780	1	314	.030
9	.644[i]	.415	.398	.59502	.012	6.329	1	313	.012
a. Predictors: (Constant), Prob_fac_6									
b. Predictors: (Constant), Prob_fac_6, Prob_fac_7									
c. Predictors: (Constant), Prob_fac_6, Prob_fac_7, Prob_fac_11									
d. Predictors: (Constant), Prob_fac_6, Prob_fac_7, Prob_fac_11, Prob_fac_8									
e. Predictors: (Constant), Prob_fac_6, Prob_fac_7, Prob_fac_11, Prob_fac_8, Prob_fac_5									
f. Predictors: (Constant), Prob_fac_6, Prob_fac_7, Prob_fac_11, Prob_fac_8, Prob_fac_5, Prob_fac_2									
g. Predictors: (Constant), Prob_fac_6, Prob_fac_7, Prob_fac_11, Prob_fac_8, Prob_fac_5, Prob_fac_2, Prob_fac_10									
h. Predictors: (Constant), Prob_fac_6, Prob_fac_7, Prob_fac_11, Prob_fac_8, Prob_fac_5, Prob_fac_2, Prob_fac_10, Prob_fac_9									
i. Predictors: (Constant), Prob_fac_6, Prob_fac_7, Prob_fac_11, Prob_fac_8, Prob_fac_5, Prob_fac_2, Prob_fac_10, Prob_fac_9, Prob_fac_3									

Source: SPSS output, self-compiled from Questionnaire data

The regression results with the value of adjusted R square 39.8% reveals that for the dependent variable Prob_fac_1 nine independent variables Prob_fac_6, Prob_fac_7, Prob_fac_11, Prob_fac_8, Prob_fac_5, Prob_fac_2, Prob_fac_10, Prob_fac_9, Prob_fac_3 is showing the problems faced by consumers to take loan from the Private sector's bank and found significantly high perception of the customers problems regarding loan facility provided by private Sector Banks in India. The above stated null hypothesis is also rejected is the model is found fit with the Value of ANOVA 24.702 which is Significant ($p<0.05$).

Further to measure the difference in the general perception of the customers regarding problems from the loan facility by the public and private sector banks the following hypothesis is developed:

H_0: there is no significant difference in the problems faced by customers regarding loan facility provided by Banks in India.

To measure the above hypothesis and finding the difference between the public and private sector banks the independent sample t test is used and the results are as under:

Table-2: Independent sample t test

Group Statistics					
	Pub_Pri	N	Mean	Std. Deviation	Std. Error Mean
Prob_fac_2	Private sector banks	162	2.8272	1.05489	.08288
	Public sector banks	161	3.0062	1.05769	.08336
Prob_fac_3	Private sector banks	162	2.0864	.71709	.05634
	Public sector banks	161	2.1118	.68915	.05431
Prob_fac_5	Private sector banks	162	3.7037	1.21527	.09548

	Public sector banks	161	3.6149	1.17293	.09244
Prob_fac_6	Private sector banks	162	2.7037	1.18944	.09345
	Public sector banks	161	2.6832	1.22690	.09669
Prob_fac_7	Private sector banks	162	3.2716	.76430	.06005
	Public sector banks	161	3.3354	.63190	.04980
Prob_fac_8	Private sector banks	162	3.4877	.73288	.05758
	Public sector banks	161	3.3851	.77510	.06109
Prob_fac_9	Private sector banks	162	3.3457	.87278	.06857
	Public sector banks	161	3.2050	1.00696	.07936
Prob_fac_10	Private sector banks	162	3.2284	.93433	.07341
	Public sector banks	161	3.0435	1.16912	.09214
Prob_fac_11	Private sector banks	162	3.2840	.88092	.06921
	Public sector banks	161	2.9938	1.02162	.08052

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means				
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference
Prob_fac_2	Equal variances assumed	1.689	.195	-1.523	321	.129	-.179	.11755
	Equal variances not assumed			-1.523	320.975	.129	-.179	.11755
Prob_fac_3	Equal variances assumed	.736	.392	-.324	321	.746	-.025	.07827
	Equal variances not assumed			-.324	320.640	.746	-.025	.07826
Prob_fac_5	Equal variances assumed	.049	.825	.668	321	.505	.08880	.13291
	Equal variances not assumed			.668	320.726	.505	.08880	.13290
Prob_fac_6	Equal variances assumed	.488	.485	.152	321	.879	.02047	.13446
	Equal variances not assumed			.152	320.556	.879	.02047	.13447
Prob_fac_7	Equal variances assumed	3.404	.066	-.817	321	.414	-.06380	.07806
	Equal variances not assumed			-.818	310.723	.414	-.06380	.07801
Prob_fac_8	Equal variances assumed	1.090	.297	1.222	321	.223	.10256	.08393
	Equal variances not assumed			1.222	319.765	.223	.10256	.08395
Prob_fac_9	Equal variances assumed	3.084	.080	1.342	321	.180	.14071	.10484
	Equal variances not assumed			1.342	314.102	.181	.14071	.10488
Prob_fac_10	Equal variances assumed	9.678	.002	1.571	321	.117	.18492	.11773
	Equal variances not assumed			1.570	305.328	.118	.18492	.11781
Prob_fac_11	Equal variances assumed	.334	.564	2.734	321	.007	.29016	.10613
	Equal variances not assumed			2.733	313.634	.007	.29016	.10617

Source: SPSS output, self-compiled from Questionnaire data

Levene's Test for Equality of Variances has been used with assumptions that the variances for the two groups viz. Public and private sector banks is statistically insignificant (p>.05) which connotes that no significant difference exist between the views of Public and private sector bank group on the selected variables except one variable Prob_fac_10. Thus, equal variance assumed row is selected for

conducting the independent sample T-Test for other variables while for Prob_fac_10 equal variance not assumed row is selected. The Independent sample test for variable Prob_fac_10 results at 321 degree of freedom t_{321}= 2.734, p = 0.07 <0.05. Therefore,

Conclusion

The banks were confident that potential repayment problems could be mitigated by ever increasing market prices for the collateral houses. The variables credit score of the customer is not available thus loan is not approved (Prob_fac_2), The staff do not explain in detail all the loan policies to us (Prob_fac_5), The staff do not explain the charges, penalty and penal interest, need to pay on the loan (Prob_fac_6), Staff do not inform about their government policy on the loan facility (Prob_fac_7), Bank do not deliver professional services in loan facility (Prob_fac_8), Competition amongst the banks also made us confuse (Prob_fac_9), Technological advancement in the banking environment causes delay in taking loan (Prob_fac_10), and Requirement of skilled employees not available yet (Prob_fac_11) are the reasons why the respondents believed that the that there is a problems regarding loan facility provided by private Sector Banks in India. Further, the difference between customers of Public and private sector banks is statistically significant at 5% level of significance. furthermore, with the mean analysis it can be said that for variable Prob_fac_10 the Private sector banks perceive the problems faced by customers regarding loan facility provided by Banks in India that is more than the public sector banks (μ public= 2.9938<μprivate=3.2840).

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