Determinants of Loan Repayment Behaviour of Bank Borrowers – A Relative Study with evidence from Bengaluru[1]

SENTHIL KUMAR ARUMUGAM *
PRAKASH M. **
S. RAMESH ***

Abstract

The present study aimed to review the various factorsthat influence the credit score and find the effect of credit score and other financial aspects of an individual's loan repayment and whether they had ever defaulted. Primary data was collected through a questionnaire from 516 customers of twelve different banks in Bengaluru city during July-August 2019 using a stratified sampling method. The results revealed that credit score, loan amount, and loan repayment amount did not affect the loan repayment behaviour of individuals. However, 'the type of loan obtained' and 'the kind of bank the loan is received' significantly influence individuals' loan repayment behaviour. Home loans, education loans, other loans and the loan obtained from a foreign bank were particularly significant in affecting the loan repayment of individuals. The high beta value for other loans indicates that most individuals who have no other loans have defaulted in repaying their dues.

I. Introduction

CREDIT SCORE MEASUREMENT plays a vital role in the borrower's credit history, and it is the prerequisite for increasing mobility and attaining financial goals (Hurley and Adebayo, 2017). It is a statistical tool used to assess a loan applicant's risk or a current borrower being default or delinquent (Mester, 1997). The credit score method, initiated in the 1950s, is

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*   Assistant Professor, CHRIST (Deemed to be University), Department of Professional Studies, Hosur Road, Bhavani Nagar, S G Palya ,Central Campus, Bengaluru, Karnataka 560029, INDIA

**   Assistant Professor, CHRIST (Deemed to be University), Department of Commerce, Hosur Road, Bhavani Nagar, S G Palya ,Central Campus, Bengaluru, Karnataka 560029, INDIA

*** Associate Professor, Jain (Deemed to be Univ.), School of Commerce, #44/4, District Fund Road, Behind Big Bazaar, Jayanagar,9th Block, Bengaluru, Karnataka 560029, INDIA

individual before granting a loan. It also helps the bank avoid default in loan repayment by its customers and reduces the NPA of banks. The study also suggests that the regulatory bodies of financial institutions and governments should give awareness on knowledge of credit scores among individuals through media. This may result in the effective implementation of loans and a better economy of the state. The study has several limitations. The current research is entirely empirical research based on the data collected from customers of 12 different banks. The study mainly focused on the respondents' credit score and other variables' impact on loan repayment behaviour. Hence, this study can be extended to fill up the other gaps by examining the impact of credit score and credit defaults on the NPAs of the company. The simulation and other suitable predictive analyses can be made to make optimal decisions by the banks.

Further research studies are required to know the impact of low credit scores on applicants' lives and their effects on societal development. How does the credit score system affect socially-oriented projects? And what are the measures being taken by the regulatory bodies for overcoming these problems? Also, the present study can be enlarged in other regions in India, and the study can be conducted to analyse the effectiveness of different credit bureaus functioning in India.

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