The present research entitled “FINANCE SCHEMES AND CREDIT HEALTH CHECK BY SELECTED FINANCIAL INSTITUTIONS” tries to achieve the following main objectives:

- To explore the key features of various consumer finance schemes offered by financial institutions.
- To find out how financial institutions check the credit health of customers at the time of granting loans.
- To examine the factors to be taken into consideration by the customers at the time of taking loan.

After highlighting the various financial schemes and their purposes and eligibility criteria the present study has tried to find out how executives of the selected banks check the credit health worthiness of the customers and how the customers of the various banks make the selection of a bank to grant a loan. The present research in order to fulfill these objectives has framed two types of questionnaires. The first questionnaire was filled up from the customers of the various banks for the selection of a bank to take a loan. Normally, it is apparent that consumers adopt a different set of criteria of bank selection for taking loans as distinguished from selecting a bank for routine transactions. Personal acquaintances and least documentation etc. are some of the factors that form the core of considerations while taking loan. The researcher has justified the following factors which are considered by customers at the time of selecting a bank

1. **Infrastructural Facilities**

   a. Convenience ATM Location
   b. ATM in Several Locations
   c. 24 Hours Availability of ATM Service
   d. Exterior and Interior Decor of Bank Building

The variables related to factor **Infrastructural Facilities**, Factor loading of V-26 ‘Convenience ATM Location’ is .900 and Mean = 4.282, factor loading of V-24 ‘ATM in Several Locations’ is .852 and Mean is 4.295, factor loading of V-25 ‘24 Hours
Availability of ATM Service’ is .841 and Mean is 4.279. Similarly, factor loading of V-19 ‘Exterior and Interior Decor of Bank Building’ is .584 and Mean is 3.581.

2. Relationship Banking and Words of Mouth Recommendations
   a. Appearance, Friendliness and Personal Acquaintance with the Bank Personnel
   b. Influential Marketing Campaign
   c. Class of People Who Patronize the Bank
   d. Recommendations of Friends and Relatives

The variables related to factor **Relationship Banking and Words of Mouths Recommendations**, Factor loading of V-21 ‘Appearance, Friendliness and Personal Acquaintance with the Bank Personnel’ is .810 and Mean = 3.562, factor loading of V-22 ‘Influential Marketing Campaign’ is .757 and Mean is 3.655, factor loading of V-20 ‘Class of People Who Patronize the Bank’ is .652 and Mean is 3.626. Similarly, factor loading of V-18 ‘Recommendations of Friends and Relatives’ is .636 and Mean is 3.474.

3. Transaction Cost and Speed Processing
   a. Low Interest Rates on Loans/EMI
   b. Speed of Processing
   c. Low Rates of Checking/Processing Fees
   d. Low Prepayment Charges

The variables related to factor **Transaction Cost and Speed Processing**, Factor loading of V-1 Low Interest Rates on Loans/EMI’ is .766 and Mean = 4.720, factor loading of V-3 ‘Speed of Processing’ is .728 and Mean is 4.428. Similarly, factor loading of V-2 ‘Low Rates of Checking/Processing Fees’ is .674 and Mean is 4.441 and factor loading of V-4 ‘Low Prepayment Charges’ is .597 and Mean is 4.301.

4. Knowledgeable Human Resources
   a. Availability of Required Human Resources
   b. Professionalism of Bank Staff
The variable related to factor **Knowledgeable Human Resources**, Factor loading of V-15 ‘Availability of Required Human Resources’ is .739 and Mean = 4.000 and the factor loading of V-13 ‘Professionalism of Bank Staff’ is .661 and Mean is 4.087.

**5. Guarantor and Environment/Ambience**

a. Need for Guarantors

b. Reception at the Bank

The variables related to factor **Guarantor and Environment/Ambience**, Factor loading of V-8 ‘Need for Guarantors’ is .583 and Mean = 3.701 and factor loading of V-16 ‘Reception at the Bank’ is .559 and Mean is 3.925.

**6. Convenience Banking**

a. Branch Network

b. Location of Branch

The variables related to factor **Convenience Banking**, Factor loading of V-11 ‘Branch Network’ is .764 and Mean = 4.133 and factor loading of V-12 ‘Location of Branch’ is .730 and Mean is 4.123.

**7. Margin Money Requirements and e-Banking**

a. Percentage of Loan Offered to Value of the Property/Security

b. Availability of Internet Banking Secure Website

The variables related to factor **Margin Money Requirements and e-Banking**, Factor loading of V-29 ‘Percentage of Loan Offered to Value of the property/security’ is .832 and Mean = 4.142 and factor loading of V-27 ‘Availability of Internet Banking Secure Website’ is .601 and Mean is 4.457.

**8. Customized Product and Confidentiality**

a. Variety and Speed of Service Offered

b. Confidentiality of Information

c. Appropriate Range of Service
The variables related to factor **Customized Product and Confidentiality**, Factor loading of V-10 ‘Variety and Speed of Service Offered’ is .788 and Mean = 3.922, factor loading of V-5 ‘Confidentiality of Information’ is .652 and Mean is 4.409. Similarly, factor loading of V-9 ‘Appropriate Range of Service’ is .554 and Mean is 3.730.

### 9. Delivery Process and Documentation

- a. Number of Documents Required
- b. Fastness of Disbursement of Loan Amount
- c. Employees Competence

The variables related to factor **Delivery Process and Documentation**, Factor loading of V-6 ‘Number of Documents Required’ is .641 and Mean = 3.847, factor loading of V-30 ‘Fastness of Disbursement of Loan Amount’ is .612 and Mean is 4.314. Similarly, factor loading of V-28 ‘Employees Competence’ is .547 and Mean is 4.003.

The main objective of the present research work was to verify and examine the various services provided by the bank. On the basis of these services customers had to select a bank. The data collected from the various customers and analysis the data by using factor analysis. The other findings of the questionnaire regarding selection of bank are as under

1. **Descriptive Statistics** In Descriptive Statistics the Mean and Standard Deviation of all the factors were find out.

2. **Total Variance Explained** In order to summarize the information contained in the organizational variables, a small number of factors should be extracted because it is very difficult to analyze all the 30 factors. Therefore, extraction took place only regarding those factors which were having high significance variance. Several methods could be used to determine the number of factors. But the present thesis based on Approach Based Method on Eigen values. In this approach, only those factors were considered whose Eigen value
was greater than 1.0 and total variance was greater than 60%. Eigen values of all the 9 factors are greater than 1 (>1) which is significant.

3. **KMO and Bartlett's Test** Kaiser-Meyer-Olkin is another useful statistics to measure the sample adequacy and Bartlett’s Test of sphericity is a test in which statistics is used to examine the hypothesis that the variables are uncorrelated in population. In other words, the population correlation matrix is an identity matrix each variable correlate perfectly with itself but has no correlation with the other variables.

From the result of this, according to Bartlett’s Test –the null hypothesis is rejected by the Bartlett’s Test which shows the appropriate of factor analysis sampling adequacy. The approximate chi-square statistics is 3146.940 with 435 degree of freedom which is significant at the 0.000 level. The value of KMO statistics (0.715) is also large (>0.5). Thus factor analysis may be considered an appropriate technique for analyzing the variables.

4. **Communalities** Once the extraction of factors has been completed, the table of 'Communalities' showed that how much of the variance in each of the original variables was explained by the extracted factors. Higher communalities are desirable. If the communality for a variable is less than 50%, it should be excluded from the analysis because the factor solution contains less than half of the variance in the original variable, and the explanatory power of that variable might be better represented by the individual variable.

5. **Scree Plot** The scree test for the number of factors dates back to Cattell (1966). Cattell reported that the process which led to the development of the scree test was one which had extracted the principal components of correlation matrices, and then looking for the resultant of eigenvalues (which he preferred to call latent roots). If the graph is plotted, the principal components in their sizes, as a diminishing series, and then joined up the points all through the number of variables concerned, a relatively sharp break appeared where the number of factors ended and the ‘detritus’, presumably due to error factors,
appeared. From the analogy of the steep descent of a mountain till one comes to
the scree of rubble at the foot of it, and decided to call this the scree test.
In this case after 9 variables the scree plot becomes steeper/stagnant; this shows
that these nine variables are creating maximum impact about the selection of
bank from customer’s perspective.

6. **Component Matrix** All the nine components or factors having eigen values
more than 1.0. Component Matrix is an important part of factor analysis. The
Component Matrix contained the coefficient used to express the standardized
variables in factors. These coefficient or factors loading represent the
correlation between the factors and the variable. The factor loading of the
component matrix can be used to interpret the factors.

7. **Rotated Component Matrix** Though, the initial or unrotated factor matrix
did not show the clear result because the factors were correlated with many
variables. In such a complex matrix it is difficult to interpret the factors.
Therefore, through rotation, the factor matrix is transformed into a simpler one.

8. **Reliability Test - Cronbach's Alpha** Alpha coefficient ranges in value
from 0 to 1 and may be used to describe the reliability of factors extracted from
dichotomous (that is, questions with two possible answers) and/or multi-point
formatted questionnaires or scales (i.e., rating scale: 1 = poor, 5 = excellent).
The higher the score, the more reliable the generated scale is. Nunnaly (1978)
has indicated 0.7 to be an acceptable reliability coefficient but lower thresholds
are sometimes used in the literature.

The alpha coefficient for the thirty items is .772, suggesting that the items have
relatively high internal consistency. (Note that a reliability coefficient of .70 or
higher is considered acceptable in most social science research situations.)

Second questionnaire was filled up by the bank executives using various types of
judgmental methods depending upon their experiences, past practices and criteria
followed by the banks to sanction consumer loans such as decision making, experience
of bank executives, banking policies, financial status of consumer and lending
procedures. This is because the rapid growth of consumer financial services such as loan schemes and purchases through EMI have given rise to the problem of recovery of loans as major cause of concern for financial institutions now-a-days. Increasing of default rates in repayments has led to accumulate of non-performing assets. Debt collection and assessment of credit worthiness has become a critical and challenging issue as the credit industry has been facing stiffer competition in recent years. Apart from the above factors and keeping in view the default rates in repayment of loans, the present study focused on the following basis of judgmental method to check the credit worthiness of the customers

- **Age** A total number of 111 responses of bank executives were collected in which 83.8% of the bank executives were strongly agreed and 16.2% of the bank executives were agreed that age was an important variable to be considered while selecting the credit health check of a customer.

- **Sex** It was observed amongst the respondents that only 34.2% of executives either strongly agreed or agreed that sex was considered while granting loan to the customer. So, sex was not considered as an important factor to check the credibility of a customer.

- **Education** An approximately 90% of bank executives agreed that Education was an important factor for the evaluation of the credit health check of the clients. Statistically it was also found that an educated customer was luckier to get the loan from banks.

- **Religion of the Borrower** In the present study it was clearly evident that Religion of the Borrower was not at all an important factor to be considered by the bank executives while granting the loan. As per frequency analysis only 8.1% executives agreed that Religion was an important factor.

- **Present Address** The data revealed that approximately 95% of the executives strongly agreed or agreed that Present Address was an important
factor for the evaluation of credit health check of a borrower. Statistical results also showed that Present Address was an important factor to get the loan.

- **Place of Permanent Residence Majority** of bank executives considered Place of permanent residence as an important variable for the grant of loan. Statistically the results were also found important.

- **Type of Employment** On the basis of the data it was observed that approximately 95% of executives agreed that Type of Employment was an important factor while checking the credibility of the customer. The data revealed in the statistical table also showed that Type of Employment was an important factor for considering the financial soundness of a customer.

- **Regular Monthly Income/Salary** The data revealed from the survey showed that 91% executives of the banks strongly agreed and 9% of the executives agreed that regular monthly income was an important factor while checking the credit health check of a customer.

- **Number of Income Earners in Family** Majority of executives (66%) either strongly agreed or agreed that number of income earners in the family was considered as an important factor while selecting a customer on the basis of Number of income earners in the family. The statistical table also considered that number of income earners in the family was an important variable to know the financial soundness of the customer.

- **Total Income of the Family** The data revealed that approximately 92% of the executives of the banks strongly agreed and agreed that Total income of the family was an important variable while checking the credit health check of a customer. The statistical results also showed that Total income of the family was an important variable to check the financial soundness of the consumer.

- **Employment History** It was observed that the 62.2% of the executives of the banks strongly agreed, 33.3% agreed that Employment History was an
important variable while checking the credit health check of a customer. Statically it was also proved that Employment History was an important factor to know the credibility of the customer.

- **Location of the Employment** It was considered by the executives of the banks that 31.5% strongly agreed, 36.9% agreed, 17.1% neutral, 3.6% disagreed and 10.8% strongly disagreed on the variable *Location of the Employment* while selecting the credit health check of a customer.

- **Number of Dependents** An approximately 63% of the executives of the banks strongly agreed and agreed with the variable *Number of dependents* while checking the credit health check of a customer. Statistically it is found that the variable Number of dependents was not so important to check the credibility of the customer.

- **Employment of Spouse** The data revealed that 43.2% of the executives of the banks strongly agreed, 25.2% agreed, 22.5% neutral, .9% disagreed and 8.1% strongly disagreed that Employment of Spouse was an important factor while checking the credit health check of a customer on the basis of the variable *Employment of Spouse.* Hence, the factor Employment of Spouse was not so important to consider the repayment position of the customer.

- **Length of Service** It was found that approximately 97% of the executives of the banks strongly agreed and agreed that the variable *Length of Service* as an important factor while checking the credit health check of a customer. Statistically it was also observed that Length of Service was an important factor to know the financially soundness of the customer.

- **Marital Status** It was observed that the variable *Marital Status* was not so important by the executives of the bank while considering the credit health check of a customer. Statistically it was also found that only a few percentages of the executives agreed with the variable Martial Status.
- **PAN of Customer** The data revealed that the *PAN of Customer* was the most important variable while selecting the credit health check of a customer. Statistically it was also proved that approximately 91% executives with the variable PAN of Customer.

- **Details of Financial Assets** It was observed that approximately 95% of the executives agreed with the factor *Details of financial assets* while checking the credit health check of a customer. The statistical data also revealed that the variable Details of financial assets were also an important factor. (Mean score = 4.6937, St. Deviation = .55256, Minimum = 3.00 and Maximum = 5.00).

- **Purpose of Loan** It was considered that the variable *Purpose of Loan* was most important factor to be considered while checking the credit health of a customer. The statistical data also revealed that approximately 100% executives agreed with the variable Purpose of Loan to know the credibility of the customer.

- **Type and Value of Collateral** It was observed that 80.2% executives of the banks strongly agreed and 19.8% agreed with the variable *Type and value of Collateral* while selecting the credit health check of a customer. So, the statistical table also considered it very important variable to find the credit worthiness of the customer.

- **Credit History of Borrower** It revealed that 86.5% executives of the banks were in the favour to know the *Credit History of Borrower*. Credit History of Borrower was the most important variable while selecting the credit health check of a customer.

- **Financial Soundness and Reputation of Borrower** Financial soundness and reputation of Borrower was an important variable to know the credit history of Borrower. An approximately 96% of the executives of the
banks were strongly agreed and agreed with this factor while checking the credit health check of a customer.

- **Physical Health Status of Borrower** The data revealed that 45.9% executives of the banks strongly agreed, 31.5% agreed, 14.4% neutral, 2.7% disagreed and 5.4% strongly disagreed with the of Physical health status of Borrower variable while checking the credit health check of a customer. So this factor was also important to consider the credibility of the customer.

- **Status of Guarantor** To know the Status of Guarantor was also an important factor as considered by the executives of the banks while checking the credit health check of a customer. Statistical it was also proved that approximately 98% executives agreed with this factor.

- **History of Previous Repayment of Financial Obligation** It was evident from the exhibit that 85.6% executives of the banks strongly agreed, 13.5% were agreed and .9% was neutral while selecting the credit health check of a customer on the basis of the variable History of previous repayment of financial obligation. So, this factor was also important to consider the credibility of the customer.

- **Monthly Savings** It showed that 72% executives were given the attention to Monthly Savings while checking the credit health of a customer. Thus, this was an important factor while considering the credibility of a customer.

The responses of the executives of the banks regarding other aspects of credit health check are as follows

- 85% executives of the banks strongly agreed and agreed with this factor to make a credit health check on each new customer. So this was an important factor while granting the loan.
➢ To make a phone call to all major accounts before due date of payment was also equally important factor considered by the executives of the banks i.e. 45% executives strongly agreed, 42.3% agreed with this factor.

➢ It was observed that 51.4% executives of the banks strongly agreed, 30.6% agreed while selecting the credit health check of a customer on the basis of the variable to fix the priorities of your collection activity and chase the highest values first.

➢ The data revealed in the variable that the Regular monthly review to identify problem accounts and define course of action was also the most important factor and the executives of the banks strongly agreed with this factor while checking the credit health check of a customer for granting the loan. 59.5% executives strongly agreed and 36% agreed with this factor.

➢ Use of information provided by credit bureaus for appraising the loans was an important factor as considered by the executives of the banks while checking the credit health check of a customer. 82.9% executives strongly agreed and 9% agreed with this factor.

Recommendations

The researcher performed a factor analysis in order to determine factors affecting their decisions to take out a loan from banks. The analysis of the study indicates that the following factors determine the selection of banks by customers.

Firstly, ‘Transaction Cost and Speed Processing’ increases the demand for loans. Important research papers in this respect are the papers of Calza et al. (2003) and Nieto (2007). The financial position of the borrower plays an important role and this is related to the country’s GDP. This indicates that in times of financial crises, it is natural for loan demand to be low and probability of a bank accepting the application of a customer for loan to be minimal.

Secondly, ‘Infrastructural Facilities’ and ‘Environment/Ambience’ seem to affect very much the decision to take out a loan. In particular, ‘Convenience Banking’ affects the
decision of customer to take out a loan. This result is in agreement with the classical theory of Parasuraman et al. (1988), who point out the importance of service quality in developing customer loyalty through customer satisfaction.

Social factors such as; ‘Relationship Banking and Words of mouth recommendations’ and ‘Knowledgeable Human Resources’ play an important role to receive a bank loan. Nevertheless, the bank is an enterprise that must abide by some ethical principles, one of which is relaxation whenever possible of the lending interest rate and a more just redistribution of the wealth for the benefit of its customers. Following factors are less important while selecting a bank to take a loan

1. Margin Money Requirement and e-Banking
2. Customized Product and Confidentiality
3. Delivery Process and Documentation

Similarly, it is very important for selected financial institutions to check the credit health of the customers because of rapid growth of consumer financial services such as loan schemes and installment purchases together to assess the risks of loan defaults. Thus, every financial institution, must find ways and means of recovering loans, assessing the Institutional variables like; Type of employment, Regular monthly income/salary, Number of income earners in family, Total income of the family, Number of income earners in family, Total income of the family, Employment history, Number of dependents, Location of the employment, Employment history, Number of dependents, Location of the employment etc and then develop strategies and set goals for improving the same and sustain good practices that are beneficial to the organization. The researcher in his opinion recommends the following favorable variables while granting a loan to the consumers

坚强。Age and the Education of the consumer is an important factor while considering the loan disbursement by the executives. The banking sector need to priorities to these factors while making a decision on loan application.
There must be uniformity in the Present Address and the place of permanent residence so that the decision of the bank executives may be positively concentrated.

Type of employment and regular monthly income/salary of the consumer is an important factor while considering the loan application. The researcher is of the opinion that both these factors must be important for the executives of the bank to sanction a loan application.

There must be a transparency in the variables like; Number of income earners in family, Total income of the family to judge the actual income of the family by the executives of the banks. As the transparency is more the same may be more convenient for the sanctioning authority of the bank.

There are significant factors like Employment History and Length of Service of the consumer. The researcher recommends that the factor pertaining to employment of the consumer must be considered by the executives of the bank to grant a loan.

The researcher also found that PAN Number of customer is a most important factor to consider the credit health worthiness of the consumer while granting loan.

There should be a proper investigation about the details of financial assets and purpose of loan. Both these factors help bank executives to make a favourable judgmental decision on the request of the loan application of the consumer.

There is a great association in the variables like; Type and value of collateral, Status of Guarantor and loan disbursement. The researcher is of the opinion that these factors show the credibility of the consumer.

In the end, the researcher is of the opinion that Credit history of borrower and financial soundness and reputation of borrower must be equally important factors like other factors.

On the basis of the findings of the present study, the researcher recommends that the following variables are not so important while granting a loan to the consumers:

- Sex
- Religion of Borrower
- Location of the Employment
Suggestions for Future Research

Although the present study provides insights into factors affecting customer’s decision to take a loan from a bank, there are some limitations that are worth noticing. A major limitation is that the results of this study are based on a small sample. Moreover, the participants of our questionnaire were people from the NCR region. This could be a possible factor in creating bias to our results, because people from the NCR may have different views on taking a loan compare to those who live far away from the NCR region. Finally, the researchers did not include all the possible factors that might influence a customer’s decision to choose a particular bank. Further the present study has taken only banks while other financial institutions like finance companies could have been taken into consideration in the study.

The case of customer’s opinion about loans attracts the interest of both researchers and bankers/executives who want to identify what the interaction is between people and banks in the period of a financial crisis. A future study investigating more factors and taking into consideration more wide spectrum of financial institution should be conducted in future.