Chapter – 2

Review of Literature
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This chapter summarizes the literature that is already in existence regarding unsecured personal loans. Relevant theories and empirical evidence is reviewed in this chapter. There are a number of theories that try to explain the growth in access to unsecured personal loans over time. This chapter review The Neoclassical theory, The Welfarist theory and The Empowerment theory of credit

2.1. Adoption of Banking Services

A. The Role of Information Technology on Banking Service

There should be more proactive approach to providing technology on banking services to help improve the use of technology in the sector. According to the research done by Bradley and Stewart (2003), nearly every bank will have technology services available by the year 2011. Surprisingly, they found out that small banks have benefited from the emergence of the technology on banking as echoed by Vainio (2006) that technology services help small banks also to strengthen their competitive position. Poon (2008) indicates that privacy and security are the major sources of dissatisfaction, which have momentously influenced users’ satisfaction.

Banks have used electronic channels to do banking operations with both domestic and international customers. Currently, banks are mostly using electronic channels to receive instructions and deliver their products and services to their customers. Although the range of services provided by banks over the electronic channel varies widely in content, this form of banking is generally referred to as electronic banking (Azouzi, 2009).

The definition of electronic banking varies among researchers, because electronic banking refers to several types of services through which bank customers can request information and carry out most retail banking services via computer, television or mobile phone (Daniel, 1999).

The definition of electronic banking used in this study is adopted from the Basel committee report which defined it the provision of retail and small value banking products and services through electronic channels as well as a large value electronic
payment and other wholesale banking services which are delivered electronically. Such products and services can include deposit taking, lending, account management, the provision of financial device, electronic bill payment, and the provision for other products and services such as electronic money (Basel committee on banking supervision, 2003).

Electronic banking services have benefits for both banks and customers. For banks, electronic banking is conceded a strategy weapon; help them to achieve competitive advantage and increase their market share. Furthermore, using electronic services can save the cost of resources, which are needed for traditional banking services (Jayawardhana and Foley, 2000). From the customers' point of view, Aladwani, (2001) found that electronic banking provide faster, easier and more reliable services to customers. However, customers are still hesitant to use electronic banking services, because they are concerned with security issues, and they may do not have sufficient ability to deal with the applications of electronic banking (Ayrga, 2011).

Meanwhile, accessibility, convenience, design and content are sources of satisfaction. Besides, the speed, product features availability, and reasonable service fees and charges, as well as the bank’s operations management factor are critical to the success of the e-banks.

Thomas et al. (2002) stated that although technology opens up new dimensions of scope and timing but it creates the possibility for crimes to be committed very quickly. Technology provides benefits for banks but it worsens traditional banking risks. As the amount of products and services offered by technology grows rapidly, consumers are more and more concerned about security and privacy issues. The banking industry has declared information privacy and security to be major obstacles in the development of consumer electronic commerce. Continuous vigilance and revisions will be essential as the scope of technology on banking increases. However, the ease with which capital can potentially be moved between banks and across borders in a technology environment pose a greater sensitivity to economic policy management.

According to O’Leary et al. (1989), two issues come to mind when banks talk about security. They are privacy and security, controlling who gets access to the bank’s computer system and its programs, and what time to access it. Studies regarding
technology on banking examined barriers such as, security, privacy, and trust of Web system (Rotchanakitumnuai and Speece, 2003). To be more precise, lack of privacy and security were found to be significant obstacles to the adoption of technology on banking services (Sathye, 1999). Challenges on technology is inevitable, therefore care must be taking in handling technology since its negative effect can cause the bank billions of money. Breaches of security and disruptions to the system's availability can damage a bank's reputation; this can potentially affect other technology banking services and its usage (Schaechter, 2002).

The importance of technology to bankers and customers are enormous looking at current technological age as asserted by Heikkiet al. (2002) that technology provides many benefits to banks and customers in banking services. Study by Agboola (2001) reveals that, Technology has been discovered to be the main driving force of competition in the banking industry during the period of study. According to Tornatzky and Klein (1982) relative advantage is an important factor in determining adoption of new innovations in the banking services. Perceived relative advantage of technology on banking services is positively related to its rate of adoption among banks (Agarwal and Prasad, 1998). Study by Eshun (2009) indicates that, IT innovations introduced by their banks have greatly influenced and enhanced service delivery in a positive way.

Another study by Jalal-Karim and Hamdan (2010) on “the impact of information technology on improving banking performance matrix” reveals that, there is an impact on the use of technology in Jordanian banks in the market value added (MVA), Earnings Per Share (EPS), Return on Assets (ROA), Net Profit Margin (NMP).

This has been supported by study by Oseiand Harvey(2010) that, banks which maintain high levels of investments in IT increased return on assets (ROA) and return on equity (ROE). Another research conducted by Moyaet al. (2010) on “Technological Innovations in Bank ofAfrica (Uganda): An Evaluation of Customers’ Perception” generally revealed that, technological innovation have contributed positively to the provision of banking services in Bank of Africa particularly ATMs and internet banking. Similarly, as technology services allow customers to access their banking accounts from any location and at any time of the day, it gives advantage to customers to be able to manage their finances properly and in a more
convenient way. Information Technology (IT) services offer relative advantages when compared to branch banking and other alternative methods in terms of price, convenience and performance (Suki, 2010). The banking industry is now using technology to offer flexible services to the customers with ease and convenience. IT also allows customer to have direct access to their financial information and to undertake financial transactions with more convenient way (Rotchanakitumnuai and Speece, 2003). Lüneborget al. (2003) discovered that banks providing technology services experience a significant positive impact on different performance measures: sales, market share, and amount of new established customer relationships.

In addition to tangible and measurable benefits brought by IT on banking services, the more intangible ones are no less important, namely competitive advantage, customer retention and attraction. Very promising for the banks is also that all of the above mentioned benefits will eventually increase revenues and reduced costs. On average e-bank customers are more profitable, maintain larger balances, use more bank products, and are faster in adopting new products and services, especially when compared to customers using more traditional channels (Hitt and Frei, 2002). This has been echoed by Flavianet al., (2004) that, Technology on bank services has a big influence on the image and reputation of the bank, as to the loyalty and satisfaction of the customer. It is obvious that bank managers are interested in what can be done to increase the usage of technology on banking services.

Technology banking makes it easier for customers to compare banks' services and products. This has been supported by Agboola (2001) that, the adoption of ICT in banks has improved customer services, facilitated accurate records, provides for Home and Office Banking services, ensures convenient business hour, prompt and fair attention, and enhances faster services. However, acceptance of this new technology has not yet been found to be equal in all parts of the globe indicating a lack of a common generalization. Ramayahet al. (2002) suggest that users will eventually lose interest in using e-banking if they feel that it is not useful to use e-banking even though the system is rather easy to handle. Despite this, Wang et al. (1999) states that, use of technology on banking has steadily been growing worldwide for the past decade, and seems to continue to do so.
Technological facilities have been identified to be the distribution channels of Banks. Technology on banking is really not one technology, but an attempt to merge several different technologies. The various technology facilities used by banks as revealed from literature (Federal Trade Commission (Abor, 2005; FTC, 2006 and Eshun, 2009) are: Automated Teller Machines (ATMs), Direct Deposit and Withdrawal Services, Pay by Phone Systems/Telephone Banking, Point-of-Sale Transfer Terminals, Personal Computer (PC) Banking Services, Internet Banking, Branch Networking, Electronic Funds Transfer at Point of Sale (EFTPoS) and Electronic Cheque Conversion.

Eshun (2009) indicate that, ATM and Branch Network are the most popular electronic banking delivery channels in Ghana. Internet Banking, Telephone Banking, PC Banking and EFTPoS, over the years are emerging strongly and its hoped in the years to come, customers are going to patronize them.

Laukkonen and Kiviniemi (2010) define m-banking as an interaction through which a customer is connected to a bank via a mobile device. The interaction does not necessarily involve performing transactions such as paying bills and transferring money but can, in its simplest form, be the sending of an SMS (Short message system) for account balance inquiry.

Steadman (2011) advocates that technology is the enabling factor that allowed m-banking to emerge. The “always-on” connectivity demand by customers coupled with the fact the internet has evolved from fixed wired through wireless to mobile connection, meant that financial institutions had to pursue alternative channels to provide their services in order to meet customers’ expectations (Puschel et al, 2010). Majority of studies about ‘intention to adopt’ were conducted based on research models and frameworks traditionally used within the information system literature. Among the different models that have been proposed, the Technology Acceptance Model (TAM) Davies, 1989 has been widely used by various scholars for explaining technology adoption intentions. TAM points out that perceived ease of use and perceived usefulness affect the intention to use. Davis (1989) defines perceived ease of use as “the degree to which a person believes that using a particular system would be free from effort” and perceived usefulness as “the degree to which a person believes that using a particular system would enhance his or her job performance”.
Some scholars even suggested that there are other possible factors that might affect mobile banking adoption (Riquelme and Rios, 2010). Various efforts to extend the technology acceptance model (TAM) by adding variables such as trust (Gu, et al. 2009; Luarn and Lin, 2005), perceived risk (Chung, Kwon, 2009; J. Donner and C. A. Tellez, 2008), perceived uncertainty (Laukkanen, 2007), perceived system quality (Kleijnen et al., 2004, Luarn and Lin, 2005) etc were all found valid in the previous studies. In view of the different constructs being used, this paper extends the TAM by including relative advantages, perceived risk, and personal innovativeness in which these constructs are believed to affect the behavioral intention to adopt mobile banking services.

Numerous studies have provided considerable evidence that gender relates to customers’ perceptions, attitudes, preferences and purchase decisions (Slyke, Comunale & Belanger, 2002; Mitchell & Walsh, 2004; Fischer & Arnold, 2004; Bakewell & Mitchell, 2006; Kwan, Yeung and Au, 2008; Wan Omar, Ali, Hussin and Rahim, 2009).

Sproles (1985) identified some items that affect customers’ cognitive and affective orientation towards shopping activities. These items were later refined by Sproles and Kendall (1986) and a scale consisting of eight mental customer style characteristics emerged. These include; perfectionist high-quality conscious consumer, brand conscious “price equals quality” consumer, novelty-fashion conscious consumer; recreational, hedonistic consumer; Price conscious “value –for-money” consumer; impulsive, careless consumer; confused by over choice consumer, and finally habitual, brand-loyal consumer. These characteristics differ from male to female (Mitchell and Walsh, 2004).

Bakewell and Mitchell (2003) later investigated the decision-making methods of adult female generation Y consumers in the UK and discovered five meaningful and distinct decision making groups; “recreational quality seekers “, “recreational discount seekers”, “trend setting loyal”, “shopping and fashion uninterested” and confused time/money conserving”. Similarly in studying the male decision making method they found that the male consumers exhibited all the eight traits earlier outlined by Sproles and Kendall (1986) and four new traits were identified namely; store loyal/low price seeking, time-energy conserving, confused time restricted and store-promiscuity. This
is a pointer to the point that apart from the fact that some of the purchase characteristics differ on the basis of sex, they are also product specific.

Mitchell and Walsh (2004) compared the decision making method/styles of male and female hoppers in Germany, they found that male individuals were slightly less likely to be perfectionists, less novelty and fashion conscious, and less likely to be confused when making purchases than their female counterparts. In a similar study by Bakewell and Mitchell (2006) they established that nine decision-making styles were common to both genders, and three new male traits; store-loyal/low-price seeking, confused time-restricted and store promiscuity, and three female traits; bargain seeking, imperfections and store loyal were also discovered.

Recently Hanzaee and Aghasibeig (2008) established 10-factor style for males and 11-factor styles for females, nine factor styles were common to both genders, they concluded that male and female customers differ in their decision-making styles. It is obvious that all these studies aligned with the fact that males and females differ in their decision making styles, noting that e-banking has its inherent features as discussed below, could it be possible for males and females disparity in patronage? This is a gap to be filled by this study. By accessing banking services from any place and at any moment, end users can benefit from increased convenience, simplicity and fastness. Besides banks can reduce their transaction cost as e-banking is five times cheaper than traditional banking ways. They can strengthen their core business and broaden their customer scope by reaching valuable customers, selling new financial e-services as an attractive differentiating tool, (Ezio, 2008).

Jun and Cai (2001) identified bank customers’ perceptions of service quality dimensions using quantitative techniques. The authors’ conceptualized internet banking service quality based on three quality perspectives; banking service product quality, customer service quality and online systems quality. Perceived risk is considered an important risk attribute that impacts on the consumer decision-making process when buying a product or consuming some services (Mitchell, 1998). Electronic banking is a technology-enabled channel and consumers’ perceive the use of electronic banking as a risky decision because technology-enabled services exhibit invasive technological, unfamiliar and indefinite stimuli.
Davidow, 1986. Therefore, when consumers decide to use electronic banking, they are exposed to uncertainties such as the availability, the compatibility, and the performance of the complementary electronic banking channels (Sarin, Sego and Chanvarasuth, 2003). The degree to which individuals accommodate these uncertainties may have gender implications.

Consumers perceive greater risks when buying services than tangible goods (Zeithaml, 1981). Services are perceived as riskier than products because services are intangible, non-standardized, and regularly sold without guarantees or warranties. Consumers can hardly ever return a service to the service provider since they have already consumed it, and some services are so technical or specialized that consumers possess neither the knowledge nor the experience to evaluate whether they are satisfied, even after they have consumed the service (Zeithaml, 1981).

**B. Financial risk, Performance risk, Physical risk, Social risk and Psychological risk.**

Financial risk represents the financial loss in using electronic banking, as consumers may perceive that reversing a transaction, stopping a payment after discovering an error, or a refund may not be possible. Performance risk in electronic banking is less satisfying than non-electronic banking, as consumers may perceive that electronic banking cannot be used to complete a transaction when needed due to the denial of access to their account. Physical risk in electronic banking refers to possible injury when personal information is accessed by a third party. Social risk refers to the older generation who may object to the use of electronic banking due to their perception that non-electronic banking is personal and friendly. Psychological risk represents consumer perceptions that the use of electronic banking would reduce the self-image of them, or have a negative effect on their perceived image from other consumers. Time risk in electronic banking implies that it takes more time to complete a banking transaction than a non-electronic banking transaction.

Sathye (1999) and Polatoglu & Ekin(2001) found that the reliability dimension was an important determinant for consumers who used electronic banking. Furthermore, Sathye (1999) and Liao & Cheung, (2002) found that reliability was positively related to the use of electronic banking. They concluded that the more secure the consumer
perceived electronic banking to be; the more likely they were to use electronic banking, this can also vary with sex.

Previous studies have identified that user input factors are a function of control, enjoyment and intention to use (Ng and Palmer, 1999). Control could be described as the amount of effort and involvement required by consumers in electronic banking. Enjoyment is the perceived playfulness and intrinsic value consumers experience from the utilization of electronic banking. The intention to use is described as the level of resistance to change, which is associated with consumers’ intention to change from non electronic banking to electronic banking. This may differ with gender. Gerrard & Cunningham (2003) identified that consumers who were more financially innovative had a higher probability of adopting electronic banking than less financially innovative consumers. Similarly.

Sathye (1999) found that even when consumers were aware of the availability of electronic banking, some consumers might still not operate this type of banking due to consumers’ low intention to use electronic banking.

Price factors suggest that perceived relative economic advantages will motivate consumers to use electronic banking (Sathye, 1999). For example, consumers using electronic banking could lower the fixed and variable costs that are associated with the banking process, due to reductions in personal error and labor cost savings.

The Report (1997) indicated that for consumers to use technologies, the price to use technologies needed to be reasonable when compared to alternatives. Sathye (1999) argued that, in the context of internet banking, two kinds of price were accounted for; the normal costs associated with internet activities, and the bank costs and charges.

Polatoglu and Ekin’s (2001) study further identified those users of electronic banking were considerably satisfied with the cost saving factor through electronic banking. Contrarily, Sathye (1999) identified that the costs associated with electronic banking, such as the cost of electronic banking activities and bank charges, had a negative effect on electronic banking adoption. Bakewell and Mitchell (2003) had earlier found that females tend to be money conserving than males: this may also have an impact on the level of patronage of e-banking by males and females. In general, additional definite service features, service specifications, targets of a service, and the core
service comprised the service product characteristics. The service product characteristics of electronic banking including: consumers’ perception of a standard and consistence service, the time saving feature of electronic banking, and the absence of personal interactions, have been empirically found to influence consumers’ use of electronic banking which may have gender implications, (Polatoglu & Ekin, 2001 and Karjaluoto, Mattila & Pento, 2002).

The electronic banking literature supports individual factors such as knowledge (Sathye, 1999), consumer resources, such as money and information reception and processing capabilities (Karjaluoto, Mattila and Pento, 2002; Gerrard and Cunningham, 2003), and lifestyle (Polatoglu and Ekin, 2001) as having impacts on consumers’ adoption of electronic banking. Knowledge refers to the consumers’ responsiveness of each type of electronic banking channel in the marketplace, their awareness of the benefits associated with electronic banking, and their knowledge of how to utilize electronic banking. The consumer resource money refers to the ease of access of a Personal Computer (PC) and the internet. The information processing and processing capabilities resource is concerned with consumers’ computer expertise, aptitude of internet, and the comprehensibility of electronic banking. Lifestyle refers to the social life in consumers’ banking patterns, such as the consumers’ value, the independence of the electronic banking process, or values relating to the personal interactions associated with the non-electronic banking process which may have gender alignment.

Consumers’ knowledge of electronic banking plays an important role in their use of electronic banking. Sathye (1999) and Polatoglu and Ekin (2001) empirically supported the idea that consumer knowledge had an effect on electronic banking adoption while Sathye (1999) found that the lack of awareness about electronic banking and its benefits, including the perception of it (being nonuser friendly) contribute to the non-adoption of electronic banking. Furthermore, Polatoglu and Ekin (2001) stated that the more knowledge and skills a consumer possessed about electronic banking, the easier it was for the consumer to utilize electronic banking. Colgate, Nguyen and Lee (2003) corroborated the fact that when consumers made decisions for different alternatives in the marketplace, the awareness of the existing alternatives was a determinant for consumers to stay with their current banking
provider and this is a function of the amount of knowledge they already possess. The knowledge possessed may vary from sex to sex depending on the level of commitment to such endeavor.

Consumer resources also influence the use of electronic banking. Mols (1998), Sathye (1999) and Karjaluoto, Mattila, and Pento’s (2002)’s studies showed that some consumers lacked access to a personal computer (PC) and this prohibited the adoption of electronic banking. Studies have also shown that consumer resources including computer proficiency influence the consumers’ employment of electronic banking. Sathye (1999) demonstrated that consumers described incomprehensibility as a reason for not using electronic banking. Similarly, Karjaluoto, Mattila, and Pento’s (2002) literature suggests’ that non-electronic banking users considered electronic banking as difficult to use because they found computers difficult to operate.

Gerrard and Cunningham (2003) found that consumers who were non-adopters of electronic banking could be differentiated by their lower computation proficiency and computer skills. Similarly, Karjaluoto, Mattila, and Pento’s (2002) empirical results suggested that non-electronic banking users considered electronic banking as difficult to use because they found computers difficult to operate.

Gerrard and Cunningham (2003) found that consumers who were non-adopters of electronic banking could be differentiated by their lower computation proficiency and computer skills. Acquisition of skills may vary with interest which differs in gender.

Al-Ashban & Burney (2001) identified white-collar consumers as being most likely to use electronic banking. It can be postulated that occupation status (namely whitecollar) is positively related to the choice of electronic banking. They further showed that as consumers increased their educational qualification level, their adoption of electronic banking would increase as well.

Chan (1997) established that income was the single most important variable that influenced a consumer’s use of a credit card. Empirical findings of income positively influencing adoption of electronic banking can be found in Al-Ashban and Burney (2001) and Karjaluoto (2002) studies.
Bank management need to continuously assess the customers’ decision-making process as well as the formation of attitudes, preferences and satisfaction of automated services. It is of little use for banks to attempt to position an offering to the female gender (for example) by emphasizing particular attributes that do not constitute significant choice criteria (Delvin, 2002).

The banking industry has tried to take advantage of the productivity and customer service gains that e-banking tend to offer. In spite of the advantages of these new technologies, many customers are unwilling to adopt them (Asikhia, 2007). It is therefore important to understand the customer preferences attitudes and adaptations of these services particularly in relation with adoption and such information could be used as marketing tools to attract new clients and retain the existing clients.

Kolodinsky et al (2000) and Kolodinsky and Hogarth (2001) studied the adoption of new innovations and services in banking in US. They concluded that gender differences existed for phone banking, electronic funds transfer and PC banking. It is pertinent to say that evidence abound that male and female consumers or customers differ in decision making styles and obvious perceptions about a product or service, it is believed that e-banking customers in Nigeria may also have certain distinctive gender characteristics and alignment in their patronage. This study fills this gap by studying the differences in decision-making of e-banking patronage based on gender in the Nigerian context.

Various studies conducted and numerous suggestions were sought to bring effectiveness in the working and operations of financial institutions. Narsimham Committee (1991) emphasized on capital adequacy and liquidity, Padamanabhan Committee (1995) suggested CAMEL rating (in the form of ratios) to evaluate financial and operational efficiency, Tarapore Committee (1997) talked about Non-performing assets and asset quality, Kannan Committee (1998) opined about working capital and lending methods, Basel committee (1998 and revised in 2001) recommended capital adequacy norms and risk management measures.

Kapoor Committee (1998) recommended for credit delivery system and credit guarantee and Verma Committee (1999) recommended seven parameters (ratios) to judge financial performance and several other committees constituted by Reserve
Bank of India to bring reforms in the banking sector by emphasizing on the improvement in the financial health of the banks. Experts suggested various tools and techniques for effective analysis and interpretation of the financial and operational aspects of the financial institutions specifically banks. These have focus on the analysis of financial viability and credit worthiness of money lending institutions with a view to predict corporate failures and incipient incidence of bankruptcy among these institutions.

Bhaskaran and Josh (2000) concluded that the recovery performance of co-operative credit institutions continues to unsatisfactory which contributes to the growth of NPA even after the introduction of prudential regulations. They suggested legislative and policy prescriptions to make co-operative credit institutions more efficient, productive and profitable organization in tune with competitive commercial banking. Jain (2001) has done a comparative performance analysis of District Central Co-operative Banks (DCCBs) of Western India, namely Maharashtra, Gujarat and Rajasthan and found that DCCBs of Rajasthan have performed better in profitability and liquidity as compared to Gujarat and Maharashtra. Singh and Singh (2006) studied the funds management in the District Central Co-operative Banks (DCCBs) of Punjab with specific reference to the analysis of financial margin. It noted that a higher proportion of own funds and the recovery concerns have resulted in the increased margin of the Central Co-operative Banks and thus had a larger provision for non-performing assets.

Mavaluri, Boppana and Nagarjuna (2006) suggested that performance of banking in terms of profitability, productivity, asset quality and financial management has become important to stable the economy. They found that public sector banks have been more efficient than other banks operating in India. Pal and Malik (2007) investigated the differences in the financial characteristics of 74 (public, private and foreign) banks in India based on factors, such as profitability, liquidity, risk and efficiency. It is suggested that foreign banks were better performers, as compared to other two categories of banks, in general and in terms of utilization of resources in particular.

Campbell (2007) focused on the relationship between nonperforming loans (NPLs) and bank failure and argued for an effective bank insolvency law for the prevention and control of NPLs for developing and transitional economies as these have been
suffering severe problems due to NPLs. Singla (2008) emphasized on financial management and examined the financial position of sixteen banks by considering profitability, capital adequacy, debt-equity and NPA. Dutta and Basak (2008) suggested that Co-operative banks should improve their recovery performance, adopt new system of computerized monitoring of loans, implement proper prudential norms and organize regular workshops to sustain in the competitive banking environment. Chander and Chandel (2010) analyzed the financial efficiency and viability of HARCO Bank and found poor performance of the bank on capital adequacy, liquidity, earning quality and the management efficiency parameters.

According to Dillion and Morris (1996), IT acceptance is “demonstrable willingness to employ information technology for the task it is designed to support”. Intentions to use a particular IT system is considered to be a critical element in predicting the behaviour (usage) (Venkatesh et al., 2003). There are variety of theoretical perspectives that have been applied in various research studies in an attempt to understand the determinants of IT adoption and its usage, mostly derived from social psychology. These research frameworks use behavioural intentions of individuals to predict their actual use of technology, in turn, focuses on the identification of the determinants of their intentions to use that technology. Some of those research models mostly used in the context of IT acceptance, include Theory of Reasoned Action (TRA) by Fishbein and Ajzen (1975), Theory of Planned Behaviour (TPB) by Ajzen (1991) and Technology Acceptance Model by Davis (1989), and Unified Theory of Acceptance and Use of Technology by Venkatesh et al. (2003). The choice of acceptance model being adopted in this study has been justified as the Unified Theory of Acceptance and Use of Technology (UTAUT) model developed by Venkatesh et al. (2003). This model was considered to be robust and comprehensive for understanding the acceptance and adoption of IT, which integrates eight previously established models on individual acceptance of IT. It was found that there are four factors that significantly influence user acceptance and usage behaviour, namely performance expectancy, effort expectancy, social influence and facilitating conditions (Venkatesh et al. 2003). UTAUT model (fig. 1) was found to explain 70% of the variance of users’ intentions to use a technology, whereas the previous eight models could explain variance of only 17 to 53 percent.
A study conducted by Sathye (1999) revealed that „lack of awareness” and „security concerns” were the major factors that are hindering customers from the adoption of Internet banking services in Australia. In another study, Wang et al. (2003) extended the TAM model by adding a variable called „perceived credibility”, for determining the users’ acceptance of Internet banking in Taiwan. They found that factors such as perceived usefulness, perceived ease of use and perceived credibility had significant influence on the behavioural intentions of bank customers for using the Internet banking services. Pikkarainen et al. (2004) investigated online banking acceptance among the finish customers, by using extended TAM. This study found that perceived usefulness, amount of information on online banking were the most influential factors of Internet banking acceptance. Yeow et al. (2008) have developed a research framework based on UTAUT model for investigating adoption of online banking in Australia. The study extended UTAUT theory with additional factors such as perceived credibility, anxiety, self-efficacy and attitude toward using online banking services. This research concluded that most of the independent variables have significant effect on behavioural intentions to use online banking in Australia. In another study conducted by Foon and Fah (2011), a survey of 200 respondents in Malaysia found that trust perception when added to UTAUT model, explained about 56.6% of the variance in behavioural intention.

In countries like Italy, whose economy is largely dominated by small companies, the provision of real and personal guarantees has always played a major role in facilitating the flow of credit to borrowers.

The role of collateral and guarantees in lending relationship has been widely discussed, and different conclusions have been reached. Under perfect information, the bank can distinguish between different types of borrowers, has perfect knowledge about the riskiness of their investment projects, therefore there is no need for guarantees. Under asymmetric information, however, collateral and personal guarantees play a role in solving different problems that may arise (Ono and Uesugi, 2006).

First of all, there are problems linked to the riskiness of the borrower. A hidden information adverse selection problem arises in situations in which banks cannot discern the ex-ante riskiness of the entrepreneur. Without guarantees, the average loan
rate would be higher than the rate that is optimal for safe borrowers, and only riskier borrowers would apply for banks loans. In these situations collateral and personal guarantees act as a screening device to distinguish the ex-ante riskiness of the entrepreneur, and lower risk borrowers will choose the contract with guarantees in order to take advantage of the lower interest rate (Bester, 1985 and 1987).

A hidden action-moral hazard problem arises when banks cannot observe the borrower’s behaviour after the loan is granted. In these situations guarantees are used as an incentive device, and reduce the debtor incentive to strategically default. As Boot et al. (1991) showed, if there is substitutability between the borrower quality and action, i.e. bad applicants have a higher return from effort, the bank requires to pledge more guarantees in order to limit moral hazard problems.

Moreover, there are studies that analyze the association between the length of the bank borrower relationship and guarantees requirements in both adverse selection and moral hazard settings. Among others, Boot and Thakor (1994) analyzed repeated moral hazard in a competitive credit market. They found that a long term banking relationship benefits the borrowers: borrowers pay higher interest rates and pledge guarantees early in the relationship, but, once their first project is successful, they are rewarded with unsecured loans and lower loan rates.

In a principal-agent setting, John et al. (2003) find that guarantees decrease the riskiness of a given loan, and that collateralized debt has higher yield than general debt, after controlling for credit rationing.

Guarantees influence the screening and monitoring activities of banks. Given the role of banks as information providers, different results are found in the economic literature on the impact of collateral and personal guarantees on bank’s screening and monitoring activities. According to the “lazy bank hypothesis” (Manove, Padilla, and Pagano, 2001), the presence of a high level of guarantees weakens the bank’s incentive to evaluate the profitability of a planned investment project. In this case guarantees and screening are substitutes for bank’s monitoring, but they are not equivalent from a social standpoint. Indeed, the authors find that putting an upper bound on the amount of guarantees relative to the project value is efficient in competitive credit markets.
Rajan and Winton (1995), on the other hand, argue that a high level of collateralization might be considered as a sign that the borrower is not sound, given that the bank usually has a greater incentive to ask for guarantees when the borrowers’ prospects are poor. Therefore, the monitoring activity should be higher in the presence of higher debt securitization.

Longhofer and Santos (2000) argue that guarantees and monitoring are complements when banks take senior positions on their small business loans. Collateral and personal guarantees requirements might be affected by credit market competition.

Besanko and Thakor (1987) analyze the role of credit market structures in the presence of asymmetric information. The authors find that in a competitive market guarantees are useful in solving adverse selection problems: low-risk borrowers choose a contract with a high level of guarantees and a low loan rate, whereas high-risk borrowers choose a contract with a low level of guarantees and a high loan rate. In a monopolistic setting, however, collateral and personal guarantees play no role unless their value is high enough to make the loan riskless for banks. Inderst and Mueller (2006) discuss a model with different types of lenders: local lenders, who have soft and non contractable information advantages, and transaction lenders (lenders located outside local markets). They show that local lenders should reduce the loan rate and increase guarantees requirements to maintain their competitive advantage, until the information advantage narrows and the competitive pressure from transaction lenders increases. Theoretical models on the relationship between guarantees and competition predict a positive correlation between bank competition and guarantees requirements. Similarly the empirical analysis of Jiménez, Salas-Fumás and Saurina (2006) find that the use of collateral is less likely in more concentrated markets.

Petersen and Rajan (1995) analyze the effect of credit market competition on lending relationship and find that firms in the most concentrated credit markets are the least credit rationed, and that banks in more concentrated markets charge lower than competitive interest rates on young firms, and higher than competitive interest rates on older firms. Empirical results on the impact of collateral and personal guarantees on the loan rate are not homogeneous either. Indeed, on the one hand, there should be a negative correlation between guarantees and the risk premium if collateral and
personal guarantees are used as a screening device to solve the adverse selection problem. On the other hand, the correlation should be positive if guarantees are used as an incentive device to reduce moral hazard, and the ex-ante risk of the borrower is observed.

Berger and Udell (1990) find that guarantees are most often associated with riskier borrowers, riskier loans, and riskier banks, supporting the idea that observably riskier borrowers are asked to pledge more guarantees to mitigate the moral hazard problem. Ono and Uesugi (2006), who analyze the small business loan market in Japan, reach similar results. They find that guarantees are more likely to be pledged by riskier borrowers.

Pozzolo (2004) argues that, when testing the relationship between risk and collateralization, it is important to distinguish between inside collateral and outside collateral, and between real and personal guarantees. He finds that real guarantees are not statistically related to the borrower risk. He interprets this finding as potentially consistent with the hypothesis that inside collateral is used as a screening device to solve the adverse selection problem. On the other hand, he finds that personal guarantees are more likely to be requested when the borrower is ex-ante riskier. However, once the borrower’s riskiness is controlled for, both real and personal guarantees reduce the interest rate charged on loans. Jiménez, Salas-Fumás and Saurina (2006) find direct evidence of a negative association between collateral and the borrower’s risk. Some authors investigate the influence of other variables on the probability that guarantees will be requested. Berger and Udell (1995) and Jiménez, Salas-Fumás and Saurina (2006) find that borrowers with longer banking relationships pay lower interest rates and are less likely to pledge guarantees. More specifically, Berger and Udell (1995) find, that the older a firm is and the longer it’s banking relationship, the less often the firm will pledge guarantees. This result is seen as consistent with the idea that requiring guarantees early in a relationship may be useful in solving moral hazard situations.

Berger and Udell (1995) also find a positive relationship between the total assets value of the borrowing firms, which is a measure of firm size, and the probability to get a loan that has to be assisted by guarantees. As for the effects of guarantees on screening and monitoring activities of banks, empirical implications of the above
theoretical models are mixed. According to the lazy bank hypothesis, a higher screening activity should be observed when borrowers post low guarantees. Further, the average debt default should be higher when creditors rights are more strictly enforced given that fewer projects will be screened in this case. On the other hand, Rajan and Winton (1995) predict that secured debt should be observed more often in firms that need monitoring, and that changes in guarantees should be positively correlated with the onset of financial distress. Jiménez, Salas-Fumás and Saurina (2006) discuss how the use of collateral as a substitute to the screening activity of the bank depends on lenders characteristics. Summing up, the review of the literature shows that there is no clear agreement about the link between guarantees and interest rates. Some researchers find that guarantees reduce the riskiness and this implies lower interest rates; others that lenders ask for guarantees when borrowers are more risky and, thus, interest rates are higher.

2.2. Loan Schemes of Banks

Lending money and supplies to friends, family and community members predates formalized financial institutions. The lender gives money to the borrower based on the credit rating of the borrower. One of the main advantages of person-to-person lending for borrowers has been better rates than traditional bank rates can offer (often below 10%). Person-to-person lending also attracts borrowers who, because of their past credit status or the lack of thereof, are unqualified for traditional bank loans. The unfortunate situation of these borrowers is, however, well known for the people issuing the loans and results in very high interest rates those verges on predatory lending and loan sharking. Loan shark is a person or body that offers unsecured loans at illegally high interest rates to individuals, often enforcing repayment by blackmail or threats of violence. Throughout history, usury laws made loan sharks commonplace Many moneylenders skirted between legal and extra-legal activity. In the recent western world, loan sharks have been a feature of the criminal underworld, but are less common in law-abiding life (Bahra et al, 2010; Mark Gimein 2010).
Modern life requires the smooth operation of banks, insurance companies, securities firms, mutual funds, finance companies, pension funds and governments. (Chakraborty 2009) The crisis is a wake-up call for the Indian banks and financial system for better managing their liquidity and credit risks, re-examining the international expansions policies of banks, and reviewing risk management models and stress test methodologies. (vikalpa, 2009). Nevertheless, the government’s commitment on restructuring the highly regulated banking sector appears strong. Since financial reforms were launched in 1991 and particularly when the entry of new banks was permitted in 1993, public-sector banks appear to have become more conscious of the need for greater profitability and efficiency, suggesting that the reform has had a favorable impact on India’s financial market (Shayari Shiral, 2011).

To provide banks with additional options for raising capital funds with a view to enabling smooth transition to Basel II, the Reserve Bank, in January 2006, allowed banks to augment their capital funds by issue of additional instruments (RBI 2010).

Three conclusions for emerging India’s banking sector. First, NPAs (as a ratio of loans and advances) are significantly sticky over time. Second, larger NPAs are associated with larger advances and vice-versa. Third, NPAs do not seem to have spiraled out of control over the 1990s. (malik et al, 2010)

Across the globe, retail lending has been the most spectacular innovation in the commercial banking sector in recent years. Gone are the days, when getting a home loan was a tough task. The market is flooded with personal loan institutions, which are competing to attract customers with a number of offers. Most of the customers are not familiar with the basics of home loans, and are not sure what the best home loan option is. With various schemes to suit your requirement and with attractive interest rates, these housing finance companies are offering most attractive finance options for home seekers. (Gaur, 2009). Gupta Tarun(1985), discussed their views in his article about the marketing concept in the banks. Laurent, C.R.(1982) has emphasized the role of marketing in banking sector. Loan Origination is the process by which a borrower applies for a new loan, and a lender processes that application. Origination generally includes all the steps from taking a loan application through disbursal of funds (or declining the application). Loan servicing generally covers everything after disbursing the funds until the loan is fully paid off (Wikipedia). Banking sector loans are the principal source of capital for small and medium business ventures in India,
comprising firms that are not large enough to be registered with stock exchanges (Wikipedia).

Uses of personal loans are endless. Most commonly personal loans are used for car purchase, home improvement, vacation, wedding etc. Personal loans are much cheaper than other alternatives like credit cards, overdraft etc. Personal loans are making possible for everyone to borrow money for any kind of requirement. Personal loans literally mould themselves to reconcile with the financial needs of any borrower. "Personal loans" is the generic term for loans. Personal loans are in fact a lump sum which is borrowed from a bank or building society or any other lender. Personal loans are available both in the form of secured and unsecured loans. Therefore, both tenants and homeowners can apply for personal loans. (Amanda Thompson, 2005)

Unsecured personal loans are ideal for those who can't place a guarantee against their loan claim. However, unsecured personal loan are charged with higher interest rate which make them expensive and not a good option if the loan amount is higher. Low interest rates for secured personal loans are due to the fact that a security is being offered for their approval (Amanda Thompson, 2005). Declining interest rate, less paper work, fast processing time, rebate on income tax, flexibility to repay, attractive schemes have led for the significant growth of Indian Loan Market. (Techsci Research, 2011). In 2004, ICRA reported in Times of India regarding the low rates of car loan.

India loan market is estimated to generate Rs 9,324.3 billion in 2011 and is expected to reach Rs 21,980.6 billion by 2016 with a CAGR of 18.7% from 2011-2016. The loans which constitutes and plays a crucial role in Indian loan market includes home loans, education loan, auto loan, personal loan, consumer durable loan and much hyped gold loans. According to TechSci Research, in 2010, home loan holds the largest market share of 46.1% in Indian loan market. Declining interest rates, flexibility to repay, increased dwelling of housing societies have led for its growth. In 2010, Southern India dominates the Indian loan market with a share of 35.4%, followed by Northern India, Western India and Eastern India. The Northern India loan market is expected to reach $7,319.8 Billion by 2016 at an estimated CAGR of 21.3% from 2011-2016. (Techsci Research, 2011).
Different personal loans lenders have different criteria. Therefore, different lenders will offer different terms and conditions for personal loans. Borrowers have all the choices for personal loans. The lender gives money to the borrower based on the credit rating of the borrower. Credit score is a three digit number with which the creditor decides whether to extend you loan or not (Amanda Thompson 2005).

Loan lenders are offering holiday loan understand the fact that everybody has a right to a peaceful vacation Personal loans for unemployed turn out to be a potent technique to meet the regular as well as contingent needs that crop up during the times of unemployment. (Amanda Thompson 2005)

India’s banking sector is that some large public-sector banks appear to have been performing reasonably well in the post-reform period. Greater competition for personal loans ensures the probability of getting lower interest rate for unsecured personal loans. Comparing loans gives consumer to the ability to make better choice (Amanda Thompson 2005). Choudhry and Ahmad (1982) in their article have given some suggestions to improve the bank services in rural areas. Tyagi Indira (2003), has analyzed the various schemes of State Bank of India. ICICI Bank has excellent staff members in terms of behavior in comparison to the staff members of SBI. Further, the services of ICICI Bank are much better than the services of SBI (Gaur, 2009).

2.3. Tenure Repayments Performance

Research suggests that financial illiteracy is an important contributory cause of low savings levels and poor financial management. Financially illiterate households tend not to plan for future or unexpected events, borrow at high interest rates, acquire few assets, conduct non-optimal mortgage equity withdrawals (van Rooij, Lusardi, and Alessie, 2012; Lusardi and Mitchell, 2013; Duca and Kumar, 2014). Recent evidence from Russia shows that financial literacy is positively related to the use of formal banking and borrowing and negatively related to the use of informal borrowing. Moreover individuals with greater financial literacy were less likely to report experiencing a negative income shock during the 2009 financial crisis (Klapper, Lusardi, and Panos, 2013). Several recent papers have evaluated the effect of financial literacy training on individual outcomes such as savings, remittances, entrepreneurial
activities and asset accumulation (Cole and Shastry, 2009; Hastings, Madrian, and Skimmyhorn, 2012). The focus on low-income households who may benefit the most is, however, limited (Collins, 2013).

Lusardi and Tufano (2009) focus specially on debt literacy, i.e. the capacity of individuals to make simple financial calculations on matters directly pertaining to the cost of debt contracts. They and very low levels of literacy across the US population. Less debt literate individuals are found to bear a disproportionately large share of avoidable costs (e.g., late fees), or borrow too much at high rates without realizing future consequences (Agarwal et. al., 2007). Numerical ability is found to be negatively correlated with various measures of delinquency and default suggesting that financial illiteracy played an important role in the sub-prime mortgage crisis (Gerardi, Goette, and Meier, 2010). Agarwal et. al. (2010) show that participants in a voluntary financial education program are less likely to fall behind on their mortgage payments indicating that increased financial literacy leads to lower delinquency rates. In Burkina Faso, microfinance groups that received loan literacy training had higher repayment performance, confirming the positive effect of financial literacy (Paxton, Graham, and Thraen, 2000). We contribute to this literature by studying the influence of a mandatory financial literacy program on repayment performance for urban female microfinance customers in India.

We also contribute to the literature that studies a key question of interest in microfinance lending; does group homogeneity affect repayment behavior of borrowers? A group's homogeneity with respect to social class, neighborhood, ethnic group, or religion is considered to be positively correlated with the group's performance. Karlan (2007) points out that social connections in group lending work for a few reasons: individuals are able to select creditworthy peers, are able to monitor each others use of funds, are able to enforce repayment, and are more likely to repay merely because of altruism towards those in their group.

However, empirical studies have found a mixed effect of social connections on group performance. Using Peruvian data, Karlan (2007) finds that individuals with stronger social connections to their fellow group members have higher repayment rates. On the other hand, Sharma and Zeller (1997) and Ahlin and Townsend (2007) using data
from Bangladesh and Thailand, respectively, and that groups with high levels of family relations have higher default.

The Indian caste system provides us with an excellent platform for studying the effect of social ties and group homogeneity on behavior of borrowers. The Scheduled Castes, Scheduled Tribes are two groups of historically-disadvantaged people recognized in the Constitution of India. In addition, Other Backward Castes (OBC) are also recognized by certain states. It is a common practice for individuals belonging to the same caste to remain close in their social relations, marriages, and rituals. For instance, Banerjee et. al. (2009) show that in India, even today, there is a strong preference for within caste marriages. At the same time, individuals belonging to disadvantaged groups are more likely to have low levels of financial literacy. Bonte and Filipiak (2012) find that backward classes in India have a lower probability of being aware of financial instruments even after controlling for a number of potential confounds. Moreover, they find that the lack of financial literacy among backward classes is an important obstacle for participation in financial markets. Thus, not only is it important to study the effect of caste but also the interactive effect of financial literacy and caste on repayment performance.

The formal financial institutions played little role in financing development efforts in the rural areas. This is because they are clustered in urban areas, concentrate on funding large enterprises and are inaccessible to the rural poor especially in terms of distance. In addition the rural poor can’t fulfill banking requirement to get loans. The requirements for collateral and intrinsic banking procedures are in most cases very difficult for the poor to deal with. The volume of loan demanded by small farmers is not appealing to banks. Such loans are difficult to manage and their processing not financially feasible.

Dejene (2003) argues in his study on the economic importance of the informal institutions in Ethiopia that the poor are often marginalized in the formal credit markets. This can be explained partly in terms of: 1) a lack of collateral, which makes lending to the poor a risky venture; 2) transaction cost of lending to and borrowing by the poor is often high; and 3) utility loss from repayment is higher for the poor as compared to the rich.
So the poor don’t have access to the formal financial sources. Lack of access to institutional credit is one of the crucial factors impeding peasant agricultural production in particular and rural development in general. On the other hand credit from informal sources is inadequate and moreover the interest rate charged is exorbitantly exploitative. Fidler and Webster (1996) note that although informal credit markets operate widely in rural areas, moneylenders typically charge very high interest rates, inhibiting the rural poor from investing in productive income generating activities.

Thus, failure of the formal financial institutions to fulfill the financial needs of the rural poor, on the one hand, and inadequacy and exploitative or costly nature of informal credit sources on the other, led to the establishment of specialized financial institutions known as MFIs with the purpose of extending micro-credit to the rural and urban poor. Johnson and Rogaley (1997) defined micro finance as the provision of financial services to the poor involving small deposits and loans. MFIs use peer monitoring and joint liability structure to overcome the screening, monitoring and enforcement problems commonly encountered by formal lending institutions (Sinha, 1998).

Since the 1970s, group-lending programs have been promoted in many developing countries. A common characteristic of group lending is that the group obtains the loan under joint liability, so each member is made responsible for repayment of loans of his or her peers. Joint liability, but possibly more so, the threat of losing access to future credit, incites members to perform various functions, including screening of loan applicants, monitoring the individual borrower’s efforts, fortunes and shocks, and enforcing repayment of their peers’ loan. (Zeller, 1996).

The existing theoretical models of peer monitoring deduce that repayment performance in group lending programs is positively related to the homogeneity of members with respect to the riskiness of their projects (Stiglitz, 1993; Besley and Coate, 1995). In group-lending programs, the functions of screening, monitoring and the enforcement of repayment are to a large extent, transferred from bank to group members. The financial intermediary reduces recurrent lending transaction costs by replacing a multiple of small loans to individuals with a larger group loan (Adams, 1988 as cited in Zellar, 1996). This reduction in transaction costs enables financial
intermediaries to bank with poor, who demand small loans and who would not receive any credit under an individual loan contract because of excessive unit transaction costs of tiny loans.

Zeller (1996) argues that probably the most important rationale for group lending is the information and monitoring advantages that group-based financial institutions at the community level have, compared to individual contracts between a bank and borrower. Group members get important information like reputation, indebtedness and asset ownership of the loan applicants at a lower cost. They can also easily monitor individual efforts made towards ensuring repayment. In addition, groups may also have a comparative advantage in enforcement of loan repayment. Group members can potentially employ social sanctions or even seize physical collateral from the defaulter (Besley and Coate, 1995). Moreover, group members appear to be in a better position to assess the reason for default and to offer insurance services to members who are experiencing shock that are beyond their control. (Zeller, 1996)

Despite all the above-mentioned benefits, group lending is not without its problems. There are several factors that may undermine the repayment performance in group lending. Zeller (1996) discusses that since the risk of loan default by an individual is shared by his or her peers, a member may choose a riskier project compared to that in the case of individual contract, and may count on other members to repay his or her loan (i.e. adverse selection of risky projects). He further notes that repayment incentives for a good borrower will vanish under joint liability, when he or she expects that significant number of peers will default. Individuals select those whom they thrust to form a group with, that is they want those who can make regular repayments, have a good concern about the possible loss they face in case of non repayment, ultimately leading to the exclusion of the poorest of the poor.

Reikne (1996) assessed the factors that lead to the failure of group based lending system in urban areas and went on to the extent that he recommended an individual credit system for a better loan repayment. According to him presence of high geographical mobility, low attachment to specific neighborhoods and peer groups consisting of competitors are the factors that frustrate the solidarity of groups in urban areas, and hence group lending is more applicable to the rural environment than to urban society.
The market for credit differs from standard markets for goods and services in two important ways. As we know from the classical competitive theory, the first difference lies in the fact that in standard markets a number of agents take part in buying and selling a homogenous commodity. The second difference lies in the fact that the handover of the good or service and the payment for it occur simultaneously in such markets. In contrast, credit received today by an individual is exchanged for a promise of repayment in the future. Since promises differ from person to person, and are frequently broken, there may be no objective way of determining that a promise will be kept. That is, moral hazard and adverse selection may affect the likelihood of the promise being kept and hence of that of loan repayment (Jaffe and Stiglitz, 1990). Considering such basic differences between standard and credit markets, trying to apply the standard supply-demand model is not totally appropriate for analysing the market for promises. If credit markets were like standard markets, then interest rates would be the prices that equate the demand and supply for credit. However an excess demand for credit is common applications for credit are frequently not satisfied, resulting in an excess demand for credit over its supply at the market interest rate (Ibid). This situation is usually termed as credit rationing in the literature.

The question to be raised here will be why is credit rationed? The whole story seems to hinge on the fact that prices don’t clear the market for credit. In fact credit rationing exists, and this seems to imply an excess demand for loanable funds. As Stiglitz and Weiss (1981) noted, one way of explaining this condition associates it with short or long term disequilibria. In the short term it is viewed as temporary disequilibrium phenomenon; i.e., the economy has incurred an exogenous shock, and for reasons not fully explained, there is some stickiness in the prices of capital (interest rates) so that there is a transitional period during which rationing of credit occurs. On the other hand long term credit rationing is explained by governmental constraints such as usury laws or minimum wage legislation.

Jaffe and Stiglitz (1990) discuss certain features of loan contracts and loan markets that make standard demand and supply model inapplicable, giving rise to credit rationing. These features include uncertainly the nature of loan contracts, and borrowers risk behaviour. For instance, uncertainty concerning the borrower’s ability, or willingness of repaying loans when they are due, results in divergences between
promised and actual repayments, creating risk of default. Since the response of lenders to uncertainty is determined in part by the extent of their risk aversion, they may use credit rationing to reduce default risk.

Loan contracts specify the amount borrowed, the interest and non-price terms like collaterals, which constrain the borrower in order to reduce default. As the terms of contract change the behaviour of the borrower is likely to change. For instance, raising the interest rate decreases the return on projects that succeed. This could be due to the fact that higher interest rates induce borrowers to undertake projects with lower probability of success but higher returns when successful.

Stiglitz and Weiss (1981) argue that the interest rate banks charge may affect the riskiness of the pool of loans by either sorting potential borrowers (the adverse selection effect); or affecting the actions of borrowers (the moral hazard or incentive effect); both deriving directly from the residual imperfect information that is present in loan markets after evaluating loan applications. Since lenders are not able to control all the actions of their borrowers directly, they formulate the terms of loan contract in such a way that induces the borrower to act in the interest of the lender. For this reason the expected return by the lender may rise less rapidly than the interest rate; and, beyond a point may actually decline. Clearly at such an interest rate beyond which the expected return to the lender starts to decrease, the demand for credit exceeds the supply of loans. The lender wouldn’t give a loan to an individual who offers higher interest rate since its expected return is lower. Hence there are no competitive forces resulting supply to equal demand and credit is rationed. The same is true with increasing the collateral requirements beyond some point. (Ibid) Consequently, it may not be profitable to raise the interest rate or collateral requirements when a lender has excess demand for credit; instead lenders deny loans to borrowers. Hodgman (1960) considered risk of default as a reason for banks not to raise loan rates even though they face an excess demand.

Credit rationing is broadly defined as a situation where the demand for loans exceed the supply of loans at the going interest rate. Different types of credit rationing have been examined in the literature. Pehlivan (1996) as cited in Abreham (2002) saw it from the angle of loan size where borrowers receive a lesser amount of loan than they requested at a given loan rate. Stiglitz and Weiss (1981) defined loan rationing as a
situation where among loan applicants who appear to be identical some receive loans and others don’t, even if these rejected ones offered to pay a higher interest rate or equivalently, some identifiable groups of individuals who, with a given supply of credit, are unable to obtain loans at any interest rate, even though with a larger supply of credit, they would.

Jaffe and Stiglitz (1990) further broadened the classification and identified four types credit rationing. These are: 1) A situation where a borrower may receive a loan of smaller amount than desired; 2) A situation where some individuals cannot borrow at the interest rate they consider appropriate based on what they perceive to be their probability of default; 3) A situation where a borrower may be denied credit, when a lender thinks of not being able to obtain its required return at any interest rate. The concept that will be addressed in this study is, the first type of rationing.

Microfinance institutions have become an increasingly important component of strategies to alleviate poverty. Hence, knowledge about the achievements of such programs is important. Impact assessment studies are essential to evaluate the success of the program or to see whether the program brings the desired benefits to the target groups. Hulme (2000) noted that impact assessment studies have become increasingly popular with donor agencies, and in consequence, have become an increasingly significant activity for recipient agencies. There are two major schools of thought that are popular in micro finance impact assessment.

Hulme (2000) terms them as ‘intermediary’ and ‘intended beneficiary’ schools, based on their focus of impact. The intermediary school focuses purely on changes in the MFI and its operations. Two key variables are focused on in this approach: institutional outreach and institutional sustainability (Yaron, et al, 1997). If both outreach and sustainability have been enhanced then the intervention is judged to have a beneficial impact as it has widened the financial market in a sustainable fashion. This is based on the assumption that such institutional impacts extend the choices of people looking for credit and savings services, and that this extension of choice ultimately leads to improved micro enterprise performance and household economic security. Though this holds in theory, it has failed to be valid in a number of experiences (Hulme, 2000). The intended beneficiary approach focuses on the intended target group or clients rather than the institution delivering the financial
services. The units of assessment in this case are the ones developed by USAID’s AIMS project that seeks to assess impact at household, enterprise, individual and community levels. This approach is believed to produce a fuller picture of overall impacts (Chen and Dunn, 1996 as cited in Hulme, 2000).

Conventionally, economic indicators have been widely utilized in assessing the impact of microfinance where assessors are particularly interested in measuring changes in income, expenditure, consumption and assets. Sebsatd et al. (1995) distinguish between ‘domain of change’ (e.g. household income) and ‘markers of change’ (e.g. amount of income, number of income sources and seasonality of income) within each domain.

Fidler and Webster (1996) discussed that although it is often difficult to control for other variables, comparing the income of participants to that of non-participants is possible in measuring impact. This is usually called ‘the control group approach’ in the literature. Concerning about the control group approach, Hulme (2000) explains that it requires a before and after comparison of a population that are in a microfinance program and an identical population that didn’t participate in the program. He argues that despite being elegant, this approach has such problems as sample selection bias, misspecification of underlying causal relationships and respondent motivation.

In practice it is not only difficult but also extremely costly to find and establish control groups exactly similar to that of the group of program participants. Some assessors use a cross-sectional impact methodology that uses new borrowers as a control group to solve such difficulties. This approach compares repeat borrowers to new ones and then calls any difference between these two groups the ‘impact’ of the program. Karlan (2001) discusses the perils of using new clients as control group and suggests solutions to some of the notable problems with such a methodology. Other researchers have tried to use the production function approach, which considers credit as one input. But as is criticized by Adams (1988) credit is a means of acquisition of inputs and not an end in itself.

Another approach put forward by researchers as a solution is comparing the borrowers’ livelihood before and after taking loan. Such an approach has been suggested by Fidler and Webster (1996). Again as with the above methodologies this
approach has its limitations like respondents not giving accurate information of loan use if they actually diverted their loan, difficulty in knowing whether an increase in income is due to the credit or not, etc. Coming to issues of sustainability Yeron (1994) discussed that the two most important objectives for a rural financial institutions to be successful are financial self-sustainability and more outreach to the target rural population. Financial self-sustainability is said to be achieved when the return on equity, net of any subsidy received, equals or exceeds the opportunity cost of funds. On the other hand, outreach is assessed on the basis of the type of clientele served and the variety of financial services offered; including the value and number of loans extended, the value and number of saving accounts, the number of branches and sub-branches, percentage of total rural population served, the real annual growth of the rural financial institutions’ assets over recent years and the participation of women clients (ibid).

Sustainability relates to the ability of a program to continuously maintain its activities and services in order to meet its objectives. For micro financing operation to be effective and successful there should be sustainability. Snodgrass (1997) argues that a successful micro enterprise support program is defined in terms of outreach, financial sustainability or socioeconomic impact.

According to Khandker et al. (1995) the concept of sustainability of micro finance can be divided into four interrelated ideas; namely, financial viability, economic viability, institutional viability and borrower viability. Financial viability relates to the fact that a lending institution should at least equate the cost per each unit of currency lent to the price it charges its borrowers (i.e. the interest rate). Economic viability relates to meeting the economic cost of funds (opportunity cost) used for credit and other operations with the income it generates from its lending activities. Institutional viability is related more to efficient management and decision-making process. Borrower viability however, refers to whether the borrowers of the institution have achieved higher flows of income over time and are able to repay back their loans. It is this concept of sustainability (in addition to financial sustainability) that is given more emphasis in this study.

Ajayi (1992) employed correlation and multiple regression analysis in his study about factors affecting default in residential mortgages of the Federal Mortgage bank of
Nigeria. His results revealed that cost of construction, monthly repayment, loan to
cost ratio, market value of property, age of borrower and annual income of borrower
enhance loan defaults, while expected rental income from property reduces loan
default.

Vigano (1993) in his study about the case of development bank of Burkina Faso
employed a credit-scoring model. He found out that being women, married, aged,
more business experience, value of assets, timeliness of loan release, small periodical
repayments, project diversification and being a pre-existing depositor are positively
related to loan repayment performance. On the other hand, loan in kind, smaller loan
than required, long waiting period from application to loan release and availability of
other source of credit were found to have negative relation with loan repayment
performance.

Zellar (1996) analyzed the determinants of loan repayment of credit groups in
Madagascar with the purpose of quantifying the effect of intra-group pooling of risky
assets or projects by controlling for community level and program design factors that
influence the repayment rate of groups loan. He employed a tobit model using a data
set on groups from six different lending programs. The results showed that socially
cohesive groups pool risks by diversifying the members’ asset portfolio so that their
repayment performance is improved even in communities with high risk exposure.
Groups with higher level of social cohesion as measured by the number of common
bonds, have a better repayment rate. Moreover the results also indicated that it is not
the level of physical and human assets of group members but the degree of variance
of such assets among members, which leads to better repayment, by pooling risks
among group members.

Kashuliza(1993) used a linear regression model to analyze determinants of loan
repayment in smallholder agriculture in the southern highlands of Tanzania. His study
showed that level of education, attitude towards repayment, farm income and off-farm
income positively affect loan repayment with farm income being significant, while
age, household expenditure and household size have negative influence on loan
repayment performance with household expenditure being significant.
Njoku and Odii (1991) studied determinants of loan repayment under the Social Emergency Loan Scheme in Nigeria. Their study showed that late release of loans, complicated loan processing procedures, loan diversion to non-agricultural enterprise and low enterprise returns resulting from low adoption rate of improved agricultural technologies and emphasis on political considerations in loan approvals contributed to poor loan repayment performance of small holders. Loan volume, years of formal education, household size and interest paid on loan were found to positively and significantly affect loan repayment; while years of farming experience, loan period, farm size, farming as major occupation, farm output and value of assets were found to negatively and significantly affect loan repayment.

Chirwa (1997) used a probit model to estimate the probability of agricultural credit repayment in Malawi. The result indicated that crop sales, income transfers, degree of diversification and quality of information are positively related while size of club is negatively related to the probability of repayment. Other factors like amount of loan, sex, household size and club experience were found to be insignificant. The other important study is that by Arene (1992). He evaluated the credit delivery system of Supervised Agricultural Credit Schemes among smallholder maize farmers in Nigeria employing multiple regression analysis. The analysis indicated that loan size, farm size, income, age, number of years of farming experience, level of formal education and adoption of innovation are significantly and positively related to repayment rate. Distance between home and source of loan, household size and credit needs were found to be negatively related to repayment rate.

Adeyemo (1984) used descriptive analysis on loan delinquency in multipurpose cooperative union in Kwara state, Nigeria. The result showed that natural calamities, crop failure due to pest, poor storage facilities, lack of adequate transport facilities, sales income, farm size, education, tenure status of borrowers are factors associated with loan delinquency.

The Study by Hunte (1996) examined repayment behavior of borrowers and the credit rationing technology of lenders in a rural financial institution. Hunte estimated loan rationing and loan repayment equations using tobit model and found out that only 33% of the criteria utilized identified credit worthy borrowers implying that the screening system was not efficient. Impact analysis for any credit program is essential.
to evaluate the success of the program or to see whether the program brings the desired benefits to the target groups. In recent years impact assessment has become an increasingly important aspect of development activity as agencies, and particularly aid donors, have sought to ensure that funds are well spent (Hulme, 2000). Conventionally, economic indicators have been widely utilized in assessing the impact of micro finance where analyzers are particularly interested in measuring changes in income, expenditure, consumption and assets. Recently, social indicators such as educational status, access to health services, nutritional levels, contraceptive uses, etc., together with the above economic indicators have been used to assess impact of micro finance on the beneficiaries (Ibid)

According to Hossain (1988) Grameen Bank has made a positive contribution to the alleviation of poverty in the areas of its operation. It has successfully reached its target group with credit, and has ensured both productive utilization of loans and their recovery in due time, thus helping to improve the living standard of more than 90% of the participants. An increase in net enterprise income of 93% was observed for borrowers of Indonesia's Bank of Rakyat in similar studies conducted to see the impact of the banks micro financing scheme (Fildler and Webster, 1996). In general, most impact assessment studies show improvements in quality of life and the positive impact of micro finances in poverty alleviation. However, even the famous Bank (the Grameen Bank) is currently facing an increase in the number of dropouts that affect its contribution to poverty reduction and the viability of the program and its borrowers in the future (Karim and Osada, 1998).

Regarding loan repayment an econometric estimation was conducted by Mengistu (1997) taking the case of micro enterprises in Awasa and Bahir Dar towns. The analysis consisted of estimating two equations, one for loan repayment and the other for loan rationing. According to the estimation results (employing binomial profit model for loans repayment) he reported that the number of workers employed has positive relation with full loan repayment for both towns, while loan size and loan diversion were negatively related. Age and weekly repayment period had positive relation with repaying loan in full for Awasa. In the case of Bahir Dar, loan expectation and number of workers employed have a positive relation with full repayment, while loan diversion and availability of other sources of credit have a
negative impact. The predicted probabilities of full loan repayment were 53% and 78% for Awasa and Bahir Dar respectively.

In relation to loan rationing for the case of Bahir Dar, six out of nine variables are significant. Accordingly, loan size, expectation for another loan and availability of other credit sources are positively related with loan granting without rationing. On the other hand number of workers employed, supervision visits and loan diversion have negative impact. For the case of Awasa, five variables are significant; namely, loan size, age, education, weekly repayment period and loan diversion. Literate borrowers and borrowers with relatively higher level of age were incorrectly rationed despite being good payers.

In his study on the Project Office for the Creation of Small–Scale Business Opportunities (POCSSBO) in Addis Ababa, Berhanu (1999) using probit model found that education, timely loan granting and the use of accounting system are negatively related to the proportion of loan funds diverted. However loan size, numbers of dependents within the household and consumption expenditure is positively related to loan diversion. He reported that loan diversion and loan size are negatively related to full loan repayment while age is positively related.

Retta (2000) also employed probit models for loan repayment performance of Women Fuel Wood Carriers (WFCs) in Addis Ababa. He reported that educational level is negatively related to loan repayment while frequency of loan (repeat borrowers), supervision, suitability of repayment installment period and other income sources are found to encourage repayments and hence reduce the probability of loan default. In another relevant study by Abreham (2002) an investigation of determinants of repayment status of borrowers and criteria of credit rationing were conducted with reference to private borrowers around Zeway area who are financed by the DBE. The estimation result employing tobit model revealed that having other source of income education, work experience in related economic activity before the loan and engaging on economic activities other than agriculture are enhancing while loan diversion, being male borrower and giving extended loan repayment period are undermining factors of loan recovery performance. With regards to loan rationing mechanism, it was found that borrowers who secured high value of collateral and those with relatively longer period were favored while those with higher equity share and
extensive experience in related activity were disfavored. This leads to the conclusion that the bank's rationing mechanism didn't much with the repayment behavior of the borrowers.

Coming to studies on impact analysis, Kassa (1998) in his study of the impact of micro financing under the micro enterprise project scheme in southern Ethiopia, has reported growth in income, employment, consumption and medical expenditure of the beneficiaries after the loan. Using Wilcoxon Matched Pairs Non-Parametric test, he also indicated that the average income after the loan is greater than that before the loan, in all the three loan cycles.

Berhanu (1999) also used Wilcoxon test and found that health, education and consumption expenditures have increased after loan compared to that before loan. Employment and household income have also increased after the loan. But he found unsatisfactory results for saving mobilization, as POCSSBO did not attach the saving facility with its credit program or facility.

Retta (2000) also reported a positive impact of micro finance on the living conditions of fuel wood carriers (WFCs), thereby enhancing their economic empowerment. This was reflected in the rise of their income, expenditure and in their shift to other alternative income generating activities after the loan rather than engaging in fuel wood collecting, carrying and selling activity. Teferi (2002) in his study on Debit Credit and Saving Institution (DECSI) found out that credit scheme has made its own positive contribution to the beneficiaries in relation to income, access to educational facilities, medical facilities, household diet and savings.

Bekele et.al. (2003) employed a logistic regression model to analyze the factors influencing loan repayment performance of smallholders in Ethiopia. The authors used data on 309 borrowers of input loans in the Oromia and Amhara National Regional states and found out that individuals who took larger loans had better repayment performances than those who took smaller loans. Further the results of the study revealed that late disbursement of inputs purchased by the loan funds was an important bottleneck in loan repayment while livestock were found to be important in improving the farmers’ repayment performance.
In general, all the above studies (except two, namely: Mengistu, 1997 and Abreham, 2002) focus on assessing impact of the credit schemes on borrowers and loan repayment performance of the borrowers. The two studies pointed out above (Mengistu, 1997 and Abreham, 2002) focused on investigating the determinants of loan repayment performance and loan rationing mechanisms of micro enterprises and small-scale businesses, respectively. Hence analyzing determinants of loan repayment, loan rationing and impact all in one may give a wider perspective of the sustainability of MFIs, which none of the above studies did. So in this study, analysis of all these three aspects of program sustainability of lending agencies (i.e., loan repayment, loan rationing and impact analysis) will be applied to the credit scheme that OCSSCO is providing. Such a study has not been conducted since the establishment of this institution.

2.4. Best Interest Rate of Loan

As mentioned in the introduction, there are competing approaches for relating financial variables to creditworthiness. Therefore, a variety of explanatory variables and estimation techniques have been used for credit scoring models (Oltmans, 1994). While one set of studies focuses on individual loan quality information, other studies examine aggregate loan quality information to build credit scoring models.

Considering individual loan quality information, Miller and LaDue (1989) observe that financial measures of liquidity, profitability and operating efficiency are good indicators of borrower quality.

Mortensen et al. (1988) find that debt-to-asset, a solvency measure, and the operating ratios are the most effective treatment variables in explaining the loan performance of North Dakota farmers.

Zech and Pederson (2003) apply both linear and logistic regression to Southwestern Minnesota farm data to predict borrower repayment capacity (which is proxied by the coverage ratio).

They discover that the debt-to-asset ratio persistently exhibits a negative relation with farmer repayment capacity. Turvey and Brown (1990) conclude that measures of
profitability, solvency, financial efficiency, liquidity, and debt repayment capacity should be combined in credit scoring models for Canada’s Farm Credit Corporation.

Purdy et al. (1997) examine factors that influence the financial performance of a sample of Kansas farms. They discover that operator age, financial efficiency, farmland tenure position, and leverage negatively impact farm financial performance, while farm size has a positive impact on financial health.

Gloy et al. (2002) examine farm profitability in a panel of 106 New York dairy farms over a seven-year period. They use fixed-effects regression models to test hypotheses regarding the effects of managerial factors on farm performance. They find that individual farm effects, such as initial endowments, resource constraints, and production and financial management factors, impact farm profitability. Plumley and Hornbaker (1991) analyze the characteristics of successful Illinois farms, identified by net farm income per tillable acre. Their findings suggest that these successful farms have a balanced composition of assets, lower debt, and higher profitability.

For aggregate loan quality models, Oltmans (1994) shows that aggregate models do not provide early warning signals for changes in loan quality; however, they still indicate key factors that should be analyzed for understanding loan quality. He finds that collateral, liquidity, government program payments, off-farm income, and the debt-to-asset ratio should be analyzed to understand loan quality.8 Escalante et al. (2004) show that farm-specific factors, such as farm size, tenure, asset turnover, operator age, diversification index, soil productivity rating, and income risk, have little explanatory power for the probability of credit risk transitions.9 Instead, macroeconomic factors, such as money supply growth, farmland value growth, changes in agricultural long-term interest rates, and changes in stock price indexes, explain the probability of credit risk migration.

Several recent studies have explored the experience of homeowners in bankruptcy (Carroll and Li, 2008; Porter, 2008; Jacoby, 2007; Bahchieva et al. 2005; Long, 2005; White and Zhu, 2008, and Levitin and Goodman, 2008). Many of these studies underscore the continued hardship homeowners face after filing for bankruptcy. In their study of Delaware bankruptcy filings, Carroll and Li (2008) find that nearly a third of homeowners who file for bankruptcy still end up losing their homes to foreclosure, while Long (2005) finds that filing bankruptcy actually increases
homeowners’ likelihood of losing their home by 28 percent largely due to lost access to credit, particularly for mortgage loans, after filing. Carroll and Li do find, however, that bankruptcy filing delays loss of a home due to foreclosure by approximately one year. They also find that the likelihood of losing the home is determined by bankruptcy trigger events such as unemployment, household financial situation, the quality of one’s legal representation, and a year or more of mortgage delinquency. They also estimate that losses faced by servicers are approximately 30 percent of outstanding balances in foreclosure. Porter (2008) finds that mortgage servicers frequently do not comply with bankruptcy law in Chapter 13 cases in ways that decrease families’ ability to save their homes.

White and Zhu (2008) find that even after changes to bankruptcy laws in 2005, nearly all Chapter 13 filers do so wishing to save their homes. Additionally, they find that the current home-saving regime in Chapter 13 has little impact on saving one’s home, but that stripping down mortgage debt to the home’s current market value, as some lawmakers have proposed, would help many debtors avoid loss of their homes. Levitin and Goodman (2008) study market sensitivity to mortgage modification risk using foreclosure sale and consumer bankruptcy data, and suggest that modification of mortgages to strip mortgage debt to current home value would have little or no impact on mortgage markets, in part because only a small percentage (less than 1 percent) of mortgages end up in bankruptcy. Within our subset of bankrupt homeowners, this study examines the borrower decision to default on mortgages. In the general literature on mortgage defaults not limited to bankruptcy, negative net home equity has long been considered a major factor in the decision to default (Jacoby, 2007; Jacoby, 2008; Avery et al., 1996; Bahchieva et al., 2005; LaCour-Little, 2004; Springer and Waller, 1993; Stegman, 2007). But equity levels do not fully explain the decision and only a small fraction of those in negative net equity situations default. Even in an extreme case like Boston the early 1990s, less than 10 percent of those with negative net equity defaulted (Gerardi et al. 2007).

Cohen-Cole et al. (2009) suggest that availability of consumer credit has a great deal of influence along with house price change and its influence on home equity, showing that cash-strapped homeowners with falling home values chose mortgage default over credit card default to protect their access to liquidity to cover everyday living expenses. This supports similar findings from Gerardi et al (2007) that the
combination of house price appreciation, expectations of future house price appreciation, household income, and wealth drives the likelihood of mortgage default and foreclosure. Additional studies have shown that trigger events (such as job loss, health problems, death, and divorce or other family breakup) that may impact household incomes permanently or for an extended period of time also play a strong role (Cutts 2006; Clauretie, 1989; Elmer and Seelig, 1998). Other studies, however, find a less clear relationship between trigger events and default (Capozza and Thompson, 2006; Quercia and Stegman, 1992).

However, Ambrose and Capone (1998) suggest that some of the lack of clarity is because there may be two types of defaulters: trigger-event defaulters who default for reasons beyond their control, and ‘ruthless defaulters’ who optimize their own behavior, and that servicers in dealing with default would be well suited to treat these types of borrower differently (Jacoby, 2007). On the cost side of the equation, several studies have looked at the impact of state foreclosure laws (Clauretie, 1989; Clauretie and Herzog 1990; Pence, 2003; Cutts and Merrill, 2008). These studies generally compare judicial foreclosures and power of sale foreclosures.

Judicial foreclosures take longer and involve higher costs than power-of-sale foreclosures, which do not involve the pursuit of a lawsuit; Cutts and Merrill (2008) also look more closely at foreclosure timelines, independent of court involvement, and compare the actual minimum number of days needed to complete a foreclosure according to each state’s laws. Analyses of cure rates relate to our study because past cure rates and past associations to cure rates inform lenders’ and servicers’ decisions on the circumstances under which they should initiate foreclosure and how quickly.

Cutts and Merrill (2008) study cure rates and other outcomes of delinquent mortgages in Freddie Mac’s portfolio. They consider the potential influence of several factors including trigger events (loss of income is more detrimental to cure rates than extreme debt obligations), length of foreclosure timelines (some may be too long while others too short), servicer-borrower communication (more than half of those who lost their homes to foreclosure never had a discussion with their servicers), loan modifications (the fail rate of modified loans was much lower than that of unmodified loans), length of repayment plans (repayment plans of 3 months or less were most successful), post-delinquency counseling (counseling increased workout success rates by 6.3
percentage points) and extent of delinquency upon beginning a repayment plan (loans beginning repayment plans 90 days delinquent had significantly higher failure rates than those beginning 30 days delinquent). Additional studies of loan cure rates include Pennington-Cross (2006), which supports the findings from Cutts & Merrill that loans delinquent for longer periods of time were more likely to fail than those delinquent for shorter periods when they entered a repayment plan.

Alternatively, Ding et al. (2007) found that longer periods of delinquency led to a lower likelihood of a loan being terminated through foreclosure. Concluding that loan modifications were successful, albeit costly, tools for curing mortgages, Cutts and Merrill argued that lawmakers should consider reducing the barriers that make these modifications so costly and complicated. On the other hand, Adelino, Gerardi and Willen (2009) argue that true costs of a modification cannot easily be determined beforehand since some delinquent loans may self-cure without modification and some modified loans may default anyway—effectively just postponing the foreclosure and extending the losses to the investor, especially in a time of falling house values—and lenders and servicers may have significantly different views or estimates of the true costs of foreclosures. Several studies have focused on the potential impact of race and ethnicity on cure rates and foreclosures. In most cases, being a minority is found to have a detrimental effect on cure rates, but the inability to adequately control for other factors has limited the conclusiveness of the findings.

Quercia and Cowan (2008) found that black homeowners who were delinquent on their mortgages were 40 percent less likely to avoid foreclosure than white homeowners, but the authors note that they lacked controls for interest rates and home equity, which other studies (Ambrose and Capone, 1998; Lauria, Baxter and Bordelon, 2004) had shown to be correlated with minority status. Additionally, other papers (Black, 1977; Clair, 1988; Horne, 1997; Yezer, Phillips and Trost, 1994; Black et al., 1997; Lawrence, 1997; Bostic and Canner, 1997; Black et al., 2001) have suggested that minority status may proxy for differences in neighborhood characteristics such as house price trends that impact lender behavior and are correlated to minority status. Our inability to control for some financial, employment, and neighborhood characteristics in our models that studies such as Munnell et al. (1992) have shown to reduce, though not always eliminate, disparities in outcomes between distressed black and white homeowners leaves the interpretation of minority
coefficients ambiguous. Additionally, the relatively small sample size limits the ability to test certain characteristics of race and ethnicity. After eliminating records with missing data, our final sample has only 66 respondents who self-identified as minorities in the initial questionnaire—52 of whom identified themselves as black. We concluded that it was necessary to look at all 66 respondents as a group to retain as many observations as possible, recognizing that this approach is far from ideal.

Schofield & Kubin 2002: “The Telecommunications industry worldwide has scrambled to bring what is available on networked computers to mobile devices”. According to this research paper, Presently, the use of Electronic Banking is considerably high and as more and more users sign up for electronic-banking, the maturity as regards remote banking (i.e. banking outside the banking hall) is on the increase.

Laforet & Li (2005): conducted a research on “Present and future of Internet Banking in China” and has produced interesting findings in the field of Mobile and Internet Banking. The important findings revealed that respondents' level of education was not found to influence online and mobile banking adoption in China. In fact, as far as mobile banking is concerned, lack of understanding of its benefits was found. At least among the urban population survey, 33 percent used online banking and 14 percent used mobile banking.

Thus, the level of awareness of such service is low in China. Howcroft et al (2002) revealed that younger consumers value the convenience or time saving potential of online and mobile banking more than older consumers. Younger consumers also regarded the lack of face-to-face contact as less important than older consumers. Another important finding as highlighted by Howcroft in the year 2002 was that the education levels of respondents did not affect the use of telephone or online banking.

Al-Ashban et al.s (2001): “Adaptation and the use of Internet Banking in the Sultanate of Oman.” This research paper was designed to investigate customer adoption of telephone-based banking. Generally, the study discovered that 87 percent of the respondents have an education higher than diploma, which was also parallel with the use of the service to be 72 percent during the past three years, 40.2 percent of them having started using tele-banking services less than one years. Other studies by Suoranta and Mittila (2004) and Riivari (2005) claimed that mobile banking were
very sophisticated and considered as the newest channels to conduct banking electronically.

According to study reported by SKMM (2004), a mobile phone was considered as a necessity good instead of communication tool. Findings indicated that younger user equal to 12.3 percent of total utilization, which is beyond the respondents who are aged 50(9 percent). Younger user for this study means teenagers (aged 15-25) consisting of secondary students and university students. Another important finding revealed that Malay teenagers were higher user among the other races comprising of 47.50 percent compared to Chinese (32.4 percent), India (6.9 percent) and other bumiputra (5.4 percent).

Baldock (1997) found that the implementation of Internet banking would remove the constraints of time, place and form. The reason is that transactions can be conducted from anywhere and anytime as long as they have access to a computer and connection to the Internet as banks would be “open” 24 hours a day and 7 days in a week (Chan, 2001; Johnson et al., 1995; Jeon and Rice, 1997; Baldock, 1997).

Birch and Young, (1997) asserted that consumers would also enjoy the privilege of access to far more providers of financial services. As a result of a wider choice of Internet bank service providers, the costs searching, negotiating and concluding deals will be lower as the comparison of products and services would be made easier over the Internet (Bakos, 1991; Malone et al., 1989, Peters, 1998). Information on pricing and returns is also far easier to gather (Birch and Young, 1997).

Chan (2001) also quoted that customers will be able to save of traveling to the branch and other intangible factors like avoiding the aggravation of traffic jams and long queues as the advantages of Internet banking. He also stated that with certain browsers, the “autofill” feature will help save time because frequently visited website addresses, login names and passwords need not be typed over and over again. Indeed Birch and Young (1997) highlighted, customers will be able to conduct their banking transactions at ease, because they would not be subjected to high-pressure sales tactics.
2.5. Service Quality of Loan

All banks in India have realized in the post-liberalization era that in order to remain competitive and provide the best services to their customers, they need to have the latest technology in place. Irrespective of their ownership status (public sector or private sector), almost all of them have given maximum importance to technological development and deployment. ATMs, plastic money, online collection and payment services, electronic fund transfer and clearing services, mobile ATMs, document management systems, smart cards, core banking solutions, branch networking and internet banking are all outcomes of their initiative of technological upgradation (Upadhyay, 2007).

In banking, in the past, the technology strategy was considered as subordinate to business strategy. But now with so much advancement in technology it has become as important as business strategy. Technology has provided an altogether new way of interacting and providing service to bank customers rather than merely replicating activities of the bank employees (Godse, 2005).

Impetus to IT in this sector was based on the Rangarajan Committee Recommendations (second - 1989), the Saraf Committee Recommendations (1993) and the Vasudevan Committee Recommendations (1998). The new private sector banks have started their operations laying great emphasis on information and communication technology as it was used as a primary competitive tool to surmount the limitations of less number of branches and their compulsion to compete with the public sector bank behemoths. Most of the foreign banks and a few of the old private sector banks have followed the same strategy as the new private banks (Financial Sector Technology Vision Document, 2005, RBI website).

The focus of this research is on technologies that customers independently use for banking without any interaction with or assistance from employees. They are termed as Self-Service Technologies or SSTs (Meuter, M.L et al., 2000).

Even though these technologies have been prevalent in the Indian banking sector for over a decade and a half, very few studies have been carried out regarding the Indian bank consumers’ experience in using them and their concerns with these technologies. These modes of banking transactions using technology-enabled self-services, have
great potential to benefit both the customers as well as the banks. The Technology-Enabled Banking Self- Services covered under this study include Automated Teller Machines (ATMs), Internet banking, Telephone banking and Mobile banking. Persuading customers to use new technologies in service encounters is generally more challenging than employees’ use of new technologies as far as banks are concerned. In the delivery of the services, since technology can replace a firm’s employees, the use of technology is immensely beneficial to the service provider in that it can standardize service delivery, reduce labor costs and expand the options for provisioning of services. On the other hand it could be wastage of resources if not widely accepted by consumers. Thus, it is essential that we find out best ways to design, manage and promote new technologies in order to have the best chance of consumer acceptance (Curran and Meuter, 2005).

The introduction of technology-enabled banking service delivery probably started off with HSBC bank introducing ATM for the first time in India way back in 1987 (N. Thamaraiselvan and J.Raja, 2007). Internet banking was introduced in India in 1996 by ICICI bank with the launch of ‘infinity’ (Rajneesh De and Padmanabhan, 2002). Even though these electronic delivery channels were introduced by foreign banks and new private banks in order to surmount their limitation of fewer branches, of late even the public sector banks are also aggressively investing in these services. So the action in this field really got heated up during the last 5-6 years.

This thrust on computerization and automation has led to massive investments in the banking sector in India. For instance as on March 31st, 2005, public sector banks in India had incurred an expenditure of Rs 9,487 crores on computerization and development of communication network (Manoharan, 2007).

Sharma, Surinder; Singh, Ramandeep (Nov 2011) Internet is significant for redefining and reshaping the various concepts in all spheres of life. To acquire ease, swiftness and downsizing, ICT banking has a forceful edge over the competitors, homogenize qualitative services, swell market share, and on the whole, to get better eminence, ICT has become an appropriate pedestal for banking sector. ICT is helpful to the banking regulatory authorities, customers and the researchers in the area for the qualitative expansion of Internet banking in India.
Solanki, Virender Singh (2011) Internet banking is one of the latest technological wonders in the recent past involving use of ICT for delivery of banking products & services. ICT banking is changing the banking industry and is having the major effects on banking relationships. Banking is now no longer confined to the branches where one has to approach the branch in person.

Yousafzai, Shumaila (2012), suggests that ICT Banking adoption is a complex and multifaceted process and a joint consideration of customers’ personal, social, psychological, utilitarian and behavioural aspects is more important than adoption itself and will ultimately result in the intended behaviour.

Moghadam, Baytollah Akbari; Behboudi, Mehdi; Jafari, Farzaneh (Dec 2012) in their research say that customers are encouraged to utilize ICT banking as first priority. Increasing the customer's arousal by ICT advertisements to use ICT banking creates a positive attitude toward bank's brand, which in-turn is the key factors in ICT banking effectiveness.

Jahangir, Nadim; Parvez, Noorjahan (Dec 2012) research states that ICT banking needs, compatibility, convenience, and communication on customer adaptation. In the context of private commercial banks in order to attract more users to ICT banking, it is not going to be enough only to introduce an ICT banking system, but they need to develop the belief of usefulness of the system among their users. The importance of ICT banking needs and the ease of using it should be acknowledged by demonstration on trial basis.

Munusamy, Jayaraman; De Run, Ernest Cyril; Chelliah, Shankar; Annamalah, Sanmugam (Dec 2012) in their research found that younger consumers are more likely to adopt ICT banking. The study states that consumers in the age group below 25 years old are the major contributor to ICT banking.

Kesharwani, Ankit; Bisht, Shailendra Singh (2012) stated in their study that the main purpose was to extend the technology acceptance model (TAM) in the context of ICT banking adoption in India under security and privacy threat. The researchers have incorporated various inhibitors of ICT banking which restrict the use of ICT banking adoption under "perceived risk", and also consider the role of the bank web site as a key determinant of perceived risk and of perceived ease of use in the context of ICT
banking services. The paper reveals that perceived risk has a negative impact on behavioral intention of ICT banking adoption and trust has a negative impact on perceived risk. A well-designed web site was also found to be helpful in facilitating easier use and also minimizing perceived risk concerns regarding ICT banking usage.

Al-Weshah, Ghazi A (2013) identified the challenges of using e-banking in different aspects of continuous improvement. The study concluded that in the use of ICT banking, process development is the most important area of continuous improvement.

Yee Yen Yuen (Sep 2013) conducted a study to help banks mitigate the key cause of profit reduction in ICT banking industry which is an insufficient understanding of customer behavior and preference by recommending effective strategies to help banks retain existing ICT banking customers.

Onay, Ceylan; Ozsoz, Emre (Oct 2013) states that ICT banking adoption has a positive impact on the level of profits, deposits and loans per branch. As operational activities are now provided via ICT branches, ICT banking facilitates banking activities in branches that require more human input. They also find that ICT banking adoption has a negative impact on bank profitability.

Patsiotis, Athanasios G; Webber, Don J; Hughes, Tim (Dec 2013) found that personal capacity is an important determinant of ICT banking. Use of it in a standard, non-sequential approach has no significant effect when the model is sequential. Results suggest that policymakers should emphasize useful attributes of ICT banking when attempting to increase its usage by people who already use the ICT.

According to Hagel and Hewlin (1997) the Internet banking became very attractive to customers and lots of banks because the technology is being accepted by them and they can now understand and have information about the complex products. Nowadays banks are also facing a lot of competition and need a high market share and provide better services to its customers so that they can attract the new customers and old customers do not try to leave them.

Bill Gates (2008) announced that « banking is essential, banks are not ». This quotation means that the traditional bank branch is going to vanish in order to be surrogated by electronic banking which continues to attract new users. (Pikkarainen, Karjaluoto, and Pahnila 2004) define Internet banking as an Internet portal, through
which customers can use different kinds of banking services ranging from bill payment to making investments’. With the exception of cash withdrawals, Internet banking gives customers access to almost any type of banking transactions at the click of a mouse. The use of the Internet as a new alternative channel for the distribution of financial services has become a competitive necessity instead of just a way to achieve competitive advantage with the advent of globalization and fierce competition (Flavián, Torres, & Guinalíu, 2004; Gan, Clemes, Limsonmbunchai, & Weng, 2006).

Although, banking administration has delayed to execute computer technology in banking exercises. A number of studies have concluded that IT has positive effects on bank services delivery to customers, bank productivity, cashiers work, banking transaction and banking investment. So, these have positive effects on the growth of banking system (Balachandher, 2001). In addition, delivery the high quality services is a way for the banking to improve their relationships with their customers. By the Delivering high quality services, banks can achieve customer satisfaction and through customer satisfaction banks can gain loyal customers (Grönroos, 2000).

On the behalf of increased competition, many banks and organization did not only reduce their costs but they have also increased their products. Technology has changed the preconditions for service delivery, dramatically in recent years (Fredriksson, 2003). On the other hand the customers also have more expectations and demand when they are using e-banking services either the services are satisfactory or not. Because it is quite easier for customers to evaluate and compare the benefits of competing services (Santos, 2003). Hence a lot of studies mentioned that the location e-service delivery is a strong driver of customers perception of e service quality (Aldlaigan & Buttle, 2002.; Almossawi, 2001.; Levesque & McDougall, 1996). So as compared to ordinary banking system electronic banking is providing the competitive advantage by lowering the cost and providing best satisfaction of customer needs (Daniel, 1999; Mols, 1998). Mattila et al. (2003) pointed that young, educated and wealthy groups of customers were the most relevant customer segments for the rapid development of Internet banking market.

Rogers (2015) identifies five steps users must go through before they are ready to adopt a new technology: Knowledge, persuasion, decision, implementation and confirmation. First, Knowledge Stage measures socio-economic characteristics,
personality variables and communication behaviour with respect to innovativeness (i.e., the ability of an early adoption). Early adopters usually have more formal education than later adopters and are more likely to possess the socioeconomic characteristics. Second, Persuasion Stage represents the potential adopter’s behaviour towards the innovation. Anticipating the satisfaction or risk of an adoption, the potential user develops positive or negative attitudes to the innovation. Third, Decision Stage occurs when an individual gets involved in activities leading to adoption or rejection of the innovation. Fourth, Implementation stage starts when the decision is finally made but the behavioral change commences. Last, Confirmation stage occurs when the adopters keep evaluating the results of their decision. If the level of satisfaction is well enough, the use of that innovation will continue. It is also possible that the rejection occurs after adoption though. In the latter case, the reverse of a previous decision is called ‘discontinuance’.

One of the main advantages of person-to-person lending for borrowers has been better rates than traditional bank rates can offer (often below 10%). Person-to-person lending also attracts borrowers who, because of their past credit status or the lack of thereof, are unqualified for traditional bank loans. The unfortunate situation of these borrowers is, however, well known for the people issuing the loans and results in very high interest rates those verges on predatory lending and loan sharking. Loan shark is a person or body that offers unsecured loans at illegally high interest rates to individuals, often enforcing repayment by blackmail or threats of violence. Throughout history, usury laws made loan sharks commonplace Many moneylenders skirted between legal and extra-legal activity. In the recent western world, loan sharks have been a feature of the criminal underworld, but are less common in law-abiding life (Bahra et al, 2010; Mark Gimein 2010).

Modern life requires the smooth operation of banks, insurance companies, securities firms, mutual funds, finance companies, pension funds and governments. (Chakraborty 2009) The crisis is a wake-up call for the Indian banks and financial system for better managing their liquidity and credit risks, re-examining the international expansions policies of banks, and reviewing risk management models and stress test methodologies. (vikalpa, 2009).
Nevertheless, the government’s commitment on restructuring the highly regulated banking sector appears strong. Since financial reforms were launched in 1991 and particularly when the entry of new banks was permitted in 1993, public-sector banks appear to have become more conscious of the need for greater profitability and efficiency, suggesting that the reform has had a favorable impact on India’s financial market (Shayari Shiral, 2011).

To provide banks with additional options for raising capital funds with a view to enabling smooth transition to Basel II, the Reserve Bank, in January 2006, allowed banks to augment their capital funds by issue of additional instruments (RBI 2010). Three conclusions for emerging India's banking sector. First, NPAs (as a ratio of loans and advances) are significantly sticky over time. Second, larger NPAs are associated with larger advances and vice-versa. Third, NPAs do not seem to have spiraled out of control over the 1990s (malik et al, 2010).

Across the globe, retail lending has been the most spectacular innovation in the commercial banking sector in recent years. Gone are the days, when getting a home loan was a tough task. The market is flooded with personal loan institutions, which are competing to attract customers with a number of offers. Most of the customers are not familiar with the basics of home loans, and are not sure what the best home loan option is. With various schemes to suit your requirement and with attractive interest rates, these housing finance companies are offering most attractive finance options for home seekers. (Gaur, 2009). Gupta Tarun (1985), discussed their views in his article about the marketing concept in the banks.

Laurent, C.R. (1982) has emphasized the role of marketing in banking sector. Loan Origination is the process by which a borrower applies for a new loan, and a lender processes that application. Origination generally includes all the steps from taking a loan application through disbursal of funds (or declining the application). Loan servicing generally covers everything after disbursing the funds until the loan is fully paid off. Banking sector loans are the principal source of capital for small and medium business ventures in India, comprising firms that are not large enough to be registered with stock exchanges.

Uses of personal loans are endless. Most commonly personal loans are used for car purchase, home improvement, vacation, wedding etc. Personal loans are much
cheaper than other alternatives like credit cards, overdraft etc. Personal loans are making possible for everyone to borrow money for any kind of requirement. Personal loans literally mould themselves to reconcile with the financial needs of any borrower. "Personal loans" is the generic term for loans. Personal loans are in fact a lump sum which is borrowed from a bank or building society or any other lender. Personal loans are available both in the form of secured and unsecured loans. Therefore, both tenants and homeowners can apply for personal loans. (Amanda Thompson, 2005)

Unsecured personal loans are ideal for those who can't place a guarantee against their loan claim. However, unsecured personal loan are charged with higher interest rate which make them expensive and not a good option if the loan amount is higher. Low interest rates for secured personal loans are due to the fact that a security is being offered for their approval (Amanda Thompson, 2005). Declining interest rate, less paper work, fast processing time, rebate on income tax, flexibility to repay, attractive schemes have led for the significant growth of Indian Loan Market. (Techsci Research,2011). In 2004, ICRA reported in Times of India regarding the low rates of car loan.

India loan market is estimated to generate Rs 9,324.3 billion in 2011 and is expected to reach Rs 21,980.6 billion by 2016 with a CAGR of 18.7% from 2011-2016. The loans which constitutes and plays a crucial role in Indian loan market includes home loans, education loan, auto loan, personal loan, consumer durable loan and much hyped gold loans. According to TechSci Research, in 2010, home loan holds the largest market share of 46.1% in Indian loan market. Declining interest rates, flexibility to repay, increased dwelling of housing societies have led for its growth. In 2010, Southern India dominates the Indian loan market with a share of 35.4%, followed by Northern India, Western India and Eastern India. The Northern India loan market is expected to reach $7,319.8 Billion by 2016 at an estimated CAGR of 21.3% from 2011-2016. (Techsci Research,2011).

Different personal loans lenders have different criteria. Therefore, different lenders will offer different terms and conditions for personal loans. Borrowers have all the choices for personal loans. The lender gives money to the borrower based on the
credit rating of the borrower. Credit score is a three digit number with which the creditor decides whether to extend you loan or not (Amanda Thompson 2005).

Loan lenders are offering holiday loan understand the fact that everybody has a right to a peaceful vacation Personal loans for unemployed turn out to be a potent technique to meet the regular as well as contingent needs that crop up during the times of unemployment. (Amanda Thompson 2005)

India’s banking sector is that some large public-sector banks appear to have been performing reasonably well in the post-reform period. Greater competition for personal loans ensures the probability of getting lower interest rate for unsecured personal loans. Comparing loans gives consumer to the ability to make better choice (Amanda Thompson 2005). Choudhry and Ahmad (1982) in their article have given some suggestions to improve the bank services in rural areas. Tyagi Indira (2003), has analyzed the various schemes of State Bank of India. ICICI Bank has excellent staff members in terms of behavior in comparison to the staff members of SBI. Further, the services of ICICI Bank are much better than the services of SBI (Gaur, 2009).

Lending money and supplies to friends, family and community members predates formalized financial institutions. The lender gives money to the borrower based on the credit rating of the borrower. One of the main advantages of person-to-person lending for borrowers has been better rates than traditional bank rates can offer (often below 10%). Person-to-person lending also attracts borrowers who, because of their past credit status or the lack of thereof, are unqualified for traditional bank loans. The unfortunate situation of these borrowers is, however, well known for the people issuing the loans and results in very high interest rates those verges on predatory lending and loan sharking. Loan shark is a person or body that offers unsecured loans at illegally high interest rates to individuals, often enforcing repayment by blackmail or threats of violence. Throughout history, usury laws made loan sharks commonplace Many moneylenders skirted between legal and extra-legal activity. In the recent western world, loan sharks have been a feature of the criminal underworld, but are less common in law-abiding life (Bahra et al, 2010; Mark Gimein 2010).

Modern life requires the smooth operation of banks, insurance companies, securities firms, mutual funds, finance companies, pension funds and governments. (Chakraborty 2009) The crisis is a wake-up call for the Indian banks and
financial system for better managing their liquidity and credit risks, re-examining the international expansions policies of banks, and reviewing risk management models and stress test methodologies. (vikalpa,2009). Nevertheless, the government’s commitment on restructuring the highly regulated banking sector appears strong. Since financial reforms were launched in 1991 and particularly when the entry of new banks was permitted in 1993, public-sector banks appear to have become more conscious of the need for greater profitability and efficiency, suggesting that the reform has had a favorable impact on India’s financial market (Shayari Shiral, 2011). To provide banks with additional options for raising capital funds with a view to enabling smooth transition to Basel II, the Reserve Bank, in January 2006, allowed banks to augment their capital funds by issue of additional instruments (RBI 2010).

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