CHAPTER – I

RESEARCH DESIGN

INTRODUCTION

Commercial banks play indirectly vital role in increasing standard of living of general public. They attract general public by the way of providing various types of loan for various purposes. In recent years, the commercial banks have initiated special clean loan schemes for the welfare of public. The study mainly helps to find out impact of clean loans provided by the commercial banks and to know the real attitude of the general public regarding various clean loans provided by the commercial banks.

The main business of a banking company is to receive deposits and lend money. Receiving deposit involves no risk, since it is the banker who owes a duty to repay the deposit, whenever it is demanded. On the other hand lending always involves much risk because there is no certainty of repayment. But, a banker earns a bulk of his income only through lending. A banker should be very cautious in lending, because he is not lending money out of his own capital. A major portion of the money lent comes from the deposits received from the public. These deposits are mostly repayable on demand. Hence, while lending money, a banker should follow a very cautious policy
and he must take into account the following general principles of sound lending.

**Banking and Economic Development**

Banks play a very important roll in the economic development of every nation. They have control over a large part of the supply of money in circulation. Through their influence over the volume of bank money, they can influence the nature and character of production in any country.

Economic development is a dynamic and continuous process. Banks are the main study of the economic program of a country, because, the economic development highly depends upon the extent of mobilization of resources and investment and on the operational efficiency of the various segments of the economy. The major roles played by the banks in the development of economy of a country can be summarized as follows:
Economic development through banking system

International Development Association (IDA)

The International Development Association (IDA) was established in 1960 as an affiliate to the World Bank. As matter of policy, the World Bank’s finance is conditional and inadequately meets the credit requirements of the under development countries. Its loan are for specific development purposes bear relatively high rate of interest (5 to 7%) and are for relatively short period (5 to 20 years). There are many projects (such as irrigation, railway construction, education, public health, housing, etc.) in the under development countries which are vital to general economic development,
which have longer gestation period and which do not yield sufficient return to meet the amortization charges. As per rules of the World Bank, loans cannot be given for such general development projects. The IDA was started to supplement the World Bank’s development assistance and to make available loans for the developing countries on cleaner term and for longer periods. Thus, the IDA has been aptly regarded as the “Clean loans window” of World Bank.

The main objectives of IDA are as follows:

- To provide development finance to the less developed countries on easy and flexible terms.
- To promote economic development, increase productivity and thus, raise the standard of living in the less development countries.
- To supplement the objectives and activities of the World Bank.

**Clean loan**

Clean loans and advances are granted to person without observing the tangible assets in the possession of the borrower.

In other word, unsecured loans are called clean. Infact, unsecured loans are also granted to person of sufficient means, possessing tangible assets and with sound financial position. But no charge or right is created on any such assets of the borrower infavour of the banker.
Standard of living

A noble laureate in development and welfare economics criticized the use of both income and commodities relevant for assessment of the living standard.

- Prof. Amartyasen

“The value of the living standard” lies in the living and on the possession of commodities.

- Prof. Amartyasen

The people have their capabilities to acquire goods and services for a better quality of living. Therefore, per capita GNP is considered as one of the means of increasing of well being of an individual.

Following the line of reasoning of Prof. Sen and others in 1980’s united nations development programme offered a broader prospective of human beings and the resulting human development. In 1990, the UNDP Published Human Development Index a yardstick, which provides a broad method for company living standards across the countries.

Recently, UNDP has also computed Human Poverty Index (HPI) and Gender Development Index (GDI) for all the countries of facilitate comparison between countries with regarded to human development.
General Principles of Sound Lending

Since all loans entail a credit risk, the banks have to follow the following principles:

❖ Safety
❖ Liquidity
❖ Profitability
❖ Security
❖ Purpose of the Loan
❖ Diversification of Risks
❖ Assured Repayment
❖ Social objectives
❖ The Law of Limitation Act

FORMS OF ADVANCES

❖ Loans
❖ Cash Credit
❖ Overdraft
❖ Discounting of Bill of Exchange
❖ Hire purchase advances
CLASSIFICATIONS OF LOANS AND ADVANCES

According to the Banking Regulation Act, 1949, the loans and advances granted by banks can be broadly classified into two namely:

(i) Secured Advances, and

(ii) Unsecured Advances of Clean Loans

Secured Advance

As per Sec, 5 (i)(n) of the Banking Regulation Act, 1949 "Secured loan or advance means a loan or advance made or the security of assets, the market value of which is not, at any time, less than the amount of the loan or advance", This definition clearly pinpoints the two important features of a secured advance. They are:

(i) The loan must be granted against some tangible security, and

(ii) The market value of the security should be always greater than the amount of the loan.

Unsecured Advances or Clean Loans

The Banking Regulation Act again points out that "Unsecured loan or advance means a loan or advance not so secured", It means, in the case of unsecured advances, loans are granted without any tangible securities. These advances are otherwise called “clean advances”. Advances against the
personal security of borrowers, discounting of bills and advances against guarantees come under this category.

This type of advances is granted to customers on the basis of their personal security viz., honesty, integrity business reputation, promptness etc. Confidence in the borrower is the basis of unsecured advances. This confidence is judged by the following three important elements:

(i) Character, (ii) Capacity, and (iii) Capital.

They me called three C’s of unsecured advances.

**Character**

The character of the borrower takes the place of a tangible security in unsecured advances. A banker grants loan relying upon his character only. Character implies personal qualities like honesty, integrity, promptness, business reputation etc. Generally, a man of good character will be very prompt in setting his account. Thus, repayment is assured. A prudent banker can study the character of a customer, by going through his financial statement of accounts, a. d the state of his account kept already in the bank. He can also collect credit information and information about his character, from other parties, before granting any advance.
Capacity

The success of this type of loan to a large extent depends upon the borrower's capacity to run the business successfully. This in turn depends upon his technical competence, managerial skill and his experience in that trade or industry. Mere character without capacity is also dangerous. If the borrower is incapable of managing things, business will suffer loss. Thus, the repayment of the loan is affected due to his in competency to manage an enterprise successfully.

Capital

The borrower should have sufficient capital at least to start a venture. Then only he will have some stake in the business. Generally, the bank provides finance for the working capital requirements of the business. The fixed capital requirements must be financed from his own capital. Of course, after nationalisation, banks have come forward to finance economically and technically viable projects, even though, the borrower do not have any capital of his own. However, it is found that borrowers take interest in business and work hard for its success only when their own capital is invested in business. Thus, character, capacity and capital play a very dynamic role in unsecured advances. Dr. C. B. Memoria has evolved a formula in this respect, which may be of much use to bankers:
LOANS AND ADVANCES

Character + Capacity + capital = Safe credit

Character +Capacity + Insufficient Capital = Fair credit risk Character

Character + Capacity - Capital = Limited success

Capital +Capacity + Insufficient Capital = Doubtful credit risk

Capital + Capacity – Character = Dangerous risk

Character + Capacity - Insufficient Capital = Fair credit risk

Character + Capital - Capacity = Inferior credit risk

Character - Capital - Capacity = Fraudulent one.

Purpose of Clean Loans

➢ Marriage expenses of self, son daughter or dependents near relative.

➢ Medical expenses incurred for self, spore children, dependent near relative.

➢ For education of self / spouse / children / near dependent.

➢ For repairs renovation / extension of existing house / flat.

➢ Any other personal expenses of bonafide nature as approved by the Bank.

➢ To meet the expenses like airfare / train / bus charges.

➢ To meet fee payable to college school hostel.

➢ To meet examination library laboratory fee.
For purchase of books equipment in structure uniform.

For purchase of computer essential for completion of the course.

Any other expenses required to complete the course like study, tours, project work, thesis etc.

Loan for expenses on lodging boarding arrangement made by the students.

STATEMENT OF THE PROBLEM

Commercial banks play a significant role in developing the economy of country in realizing its socio-economic goals. A modern commercial banker plays completely a decisive role in supporting the emerging consumer boom by financing to the purchase of consumer durables. The commercial bank’s clean loans can be classified as marriage loan, festival loan and education loan. By this way, commercial banks help in uplifting the standard of people’s life in developing countries. One of the key activities of commercial banks in a developing county is financing of employment generating activities. Banks provide loans for pursuing higher studies in engineering, medical and hotel management.
Clean loans are given to persons without observing the tangible assets in the possession of the borrower. In other words, unsecured loans are called clean loans.

Karur is one of the developing cities which consist, people working in textiles, government offices, farmers, professionals, students and others. Most of the people who are living here belong to middle class. They like to improve their standard of living by getting loan from commercial banks.

Since, People get loans for marriage expenses, medical expenses, educational purpose, travelling expenses, buying computers etc, this research concentrate, on “A study on customer satisfaction of clean loans with reference to commercial banks in Karur District”.

Money is not only lifeblood for business concerns but also human being. In recent days the need of cash has been increasing. Money occupies a dominant role in human life. Karur District is one of the developing cities in Tamilnadu. Here, there are many textile units, bus body builders, mosquito net firms, and other industries. Based on the above industries, people got job easily. Through these job opportunities people like to spend money in buying household needs like television, computer, furniture, two wheelers, car, refrigerator and air conditioners. Also they need cash to meet medical expenses, marriage expenses and festival expenses. Salaried people can’t
spend lump sum money for fulfilling these requirements. Hence, they get clean loan based on their salary certificate. They re-pay the loan amount in a particular period.

Many banks have branches in Karur District. These Banks provide clean loans to public with easy terms and conditions. It helps public to fulfill their short-term cash requirements.

People who are living in Karur borrowed clean loan from commercial bank for household and consumption purpose. The purpose of clean for household purpose, to fulfill the requirement of buying two wheeler, car, TV, personal computer, air conditioner and other household appliances.

The purpose of clean loan for consumption purpose is to meet medical expenditure to spend money during festival occasion also be meet educational expenses.

Clean loan for household and consumption purpose helps to improve economic development people who are living in Karur District.
OBJECTIVES OF THE STUDY

1. To study the clean loan schemes provided by commercial banks in Karur District.

2. To examine clean loan practices exercised by commercial banks in Karur District.

3. To analyse clean loan performance with reference to household investment.

4. To analyse clean loan performance with reference to consumption investment.

5. To analyse overall clean loan performance by commercial banks in Karur District.

6. To offer suggestions for improving performance of clean loan.
HYPOTHESIS

1. $H_0 = \text{There is no association between loan procedure and personal factors.}$

2. $H_0 = \text{There is no significant association between the age of the respondent and overall satisfaction facility.}$

3. $H_0 = \text{There is no significant association between the education of the respondent and the overall satisfaction on facility.}$

4. $H_0 = \text{There is no significant association between education of the respondent and the overall loan sanction time.}$

5. $H_0 = \text{There is no significant association between loan applied and the overall performance.}$

6. $H_0 = \text{There is no significant association between loan availed and overall performance.}$

7. $H_0 = \text{There is no significant association between loan sanction period and overall performance.}$

OPERATIONAL DEFINITION

Clean loan

Clean loans are given to persons without observing the tangible assets in the possession of the borrower. In other words, unsecured loans are called clean loans.
**House hold**

Clean loans given get the purpose of assets like two wheelers, four wheelers, air conditioners, TV and computers use in the house.

**Consumption**

Clean loans awarded for the purpose of meeting expenditure in connection with educational such as engineering, medical purpose of meeting expenditure in connection with expenditure during festival occasion.

**Overall satisfaction**

Satisfaction arising out of use of clean loans.

**Method of interest**

Method of interest means rate of interest charged either on fixed mode or flexible mode.

**Loan procedure**

Procedures regarding loan process, facilities, customer services, cost aspect, convenience, amount of loan, loan sanction time, method of interest charged, temporary default, loan facility available, insurance and disbursement.

**Loan sanction time**

The period between the borrowers apply for loan and getting loan.
Insurance

It means loan covered with insurance.

Loan guidance

It means the persons who are participated in the selection of bank for getting clean loan.

EMI

It means equated monthly installments.

METHODOLOGY

Sources of Data

To accomplish the objectives of the study the researcher has to depend on both primary and secondary data.

The primary data are collected from borrowers of commercial banks. The secondary data needed for the study are collected from magazines, journals, annual reports of banks etc.

Questionnaire

Questionnaire was used for collecting data from borrowers structured and non-disguised type of questions and closed ended questions were used for the study.
Sample design

Keeping in view of the problem and scope of the study, the researcher has decided to classify all the borrowers based on occupation basis which include Govt. employees, private employees, students, farmers, professionals and business people.

Sampling procedure

The study is confined to Karur District which is mainly concerned with the borrowers of popular banks. A sample of 482 borrowers was selected from the Karur District by using area sampling. Area has been classified East, West, and North and South zone. A possible list of customers to be contacted for data collection purpose was arrived with the help of bank officials.

TOOLS USED IN THE STUDY

The data collected through questionnaire were analysed and The Statistical Packages for Social Studies (SPSS) was used for analysis. The data collected were analyzed by using appropriate statistical tools such as percentages, chi-square test, correlation, multiple regression and Anova test.

PERIOD OF THE STUDY

The study has been conducted for a period of five years from 2006-2007 to 2010-2011.
LIMITATIONS OF THE STUDY

1. The data has been collected under survey method, which was adopted for collecting one data; this method has its own limitation.

2. Out of total population, only 482 respondents were selected for collecting information. In view of time and monetary constraints, it was not possible to contact more than the selected number of respondents.

3. Certain respondents had given information by their own views, the generalization of these subject to limitations.

4. The survey was conducted only in Karur district. Hence the results may or may not apply to other areas.

5. Due to time and resource constraints. The present study is limited to a period of 5 years from 2006 to 2011.

6. Various statistical tools extensively used for the study have their own limitation.

CHAPTER SCHEME

For better understanding the study has been divided into 7 chapters.

The first chapter “Research Design” deals with objectives of the study, methodology and limitations of the study.

The second chapter deals with review of literature.
The third chapter deals with the different clean loan schemes offered by commercial banks in Karur District and profile of Karur District.

The fourth chapter deals with clean loan practices involved in commercial banks in Karur District.

The fifth chapter deals with performance of clean loan with reference to household purpose and consumption purpose.

The sixth chapter deals overall clean loan performance provided by commercial banks in Karur district.

The seventh chapter deals with findings of the study and suggestions for improving performance of clean loan.