

# “BORROWERS CHOICE BETWEEN BORROWING FROM BANKS AND BORROWING FROM ARM’S LENGTH SOURCES”

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## ABSTRACT

*Major objective of this study is to identify the facilities and problems faced by the customers regarding the borrowing of the loan from different sectors. The researcher has used both primary and secondary data. The primary data were collected with the help of questionnaire in the online (Google) form. The researcher have collected sample of 94 customers from convenient sampling. The data were expressed by using different testing like chi-square test, descriptive statistics and Kruskal – Wallis test, reliability test. Out of them 93% customer’s preferred banking sector for taking loans. This is due facility by banks.*

**Keywords:** Loans, Borrowings, Banks, Customer

## INTRODUCTION

### I) Banking sector

The oxford dictionary has defines banks as “a money lending institution” which pays for a customer order. In our country many types of banks are operating for cater of financial needs. The development of any country depends largely on the banking system. In India Modern banking was originated in the mid of 18th century. The first banks were the Bank of Hindustan. The largest and the oldest bank which is still in existence is the State Bank of India (SBI). Bank provides loans in two ways long term and short term depends on the purpose of the loan. The banking business has done miraculous roll for the global economy. Banks create financial mediators by accumulating savings and converting them into currencies. There might be a difference between the applied amount and the sanctioned amount based on the quality and capacity of the borrower and the purpose for which it applied.

### II) Arm length sources

NBFIs act as a supplement to banks by providing infrastructure to distribute excess resources to individuals and companies with deficits. . In India NBFIs (non banking financial institutions) was started in the 1960s as an alternative for savers and investors whose financial needs were not sufficiently met by the existing banking system. NBFC cannot accept deposits from the public because they do not have a full banking license. The non banking sectors initially operated on a limited scale without making much impact on the financial industry. They invited fixed deposits from investors and lending them to big industrial firms as well as to the individuals. Between the 1980s and 1990s, NBFCs, with the help of their customer-friendly reputation, began to attract a huge number of investors and savers.

### Different types of loans

Personal loan A personal loan is a simple and easy process to get your money in small amount and in a timely manner. Personal loan can be taken for many purposes like for wedding, for holiday, to purchase of any life product or it can be for medical emergency. Generally, personal loans are an unsecured loan provided by banking sector or by arms length sources without taking any collateral securities. The credit for establishing a customer loan is usually unsecured and depends on the customer's loyalty and ability to loan repay. In the post crisis period, personal loans have become costlier with frequent upward revisions in interest rates by banks and financial institutions.

### Gold loan

Possession of gold has been a symbol of prosperity in the world. Gold is considered as a safest way of investment that provides securities against inflation. According to an estimate of World Gold Council, about 10 per cent of world’s gold is in India’s possession (**World Gold Council, 2013**). The practices followed by gold loans NBFCs need a relook to ensure customer protection. The demand for gold loans is influenced by many factors.

### Auto loan

Now day's auto loan are generally taken for purchasing a new or second handed private or commercial vehicle .in normal terms auto loans are secured loans. In this type of loan vehicle is itself considered as collateral. It is offered by lenders for new cars, used cars, two wheelers (generally called a Two-wheeler Loan) and commercial vehicles (generally called a Commercial Vehicle Loan). In current market situation banks provides loan up to 90% of the cost of new vehicle and 85% for old vehicle. Loan repayment is basically according to loan takers income and repayment capacity. And repayment time is typically between 12 to 84 months. Interest rate will be decided by the lender on the type of vehicle and loan value.

### Home loan

A home loan takes you one step closer to your dream destination- a home of your own, to either start a new family, shift to a bigger house or plan your retirement getaway. Home Loan is the sum of money borrowed from a bank or a financial institution to purchase or construct a house. It is a secured loan where the property is mortgaged to the lender as a security till the repayment of the loan. The bank or financial institution holds the title or deed of the property till the loan has been paid back with the interest due for it. Lenders generally offer loan amount up to 80-85% of the value of the property. The duration for home loan can be taken ranges from 5-30 years. In home loan Lenders offer either fixed or floating interest rate: There are different types of home loan available in the market to cater a borrower's different needs:

House purchase loan	Home improvement loan
Home extension loan	Loan against property
Land purchased loan	Balance transfer loan

### Business loan and Small business loan

A small business loan, also known as a commercial loan, is a loan product designed especially for investment in a business. Business loans for small businesses cater to the urgent needs that a new opportunity can throw up. These loans can either be secured by collateral or be unsecured, based on the amount needed, the type of loan and the relationship between the business and the lender.

## **OBJECTIVES**

- 1: To find out which loan providing sector is most preferable from the customer's view point.
- 2: To analyze difficulties facing by customers to get a loan from different loan providing sectors.
- 3: To analyze facilities influencing customer's choice to get a loan from different loan providing sectors.

## **SCOPE OF STUDY**

This empirical study of perception of customers residing in various cities of Gujarat state towards taking loan from banking sector or other arms length sources. The study is conducted to identify the borrowing objectives of the customers which can be influenced from the difficulties faced by them and provided facilities.

## **SIGNIFICANCE OF STUDY**

Number of studies has been done in the loan sector previously in India. This particular study covers perception and attitude of loan takers residing in Gujarat. This study will be helpful to the administrator and policy maker of banking sector and arms length sources organization to introduce and create various type of polices that enhance satisfaction level of customers and eventually result in the growth borrowing field. This study will also be helpful to the researchers who will carry out their research in the area of perception of customers with multi- dimensional aspects in the future. This study is useful to potential borrowers in taking decision for getting loan from particular sectors.

## **LITERATURE REVIEW**

Firm's choice between borrowings from relationship (inside/banks) and transactional (arm's length) sources like bond markets. Banks help to control a firm's investment decisions. Bank finance costlier than arms length financing. (Rajan, 1992).

Soft private information primarily underlies relationship lending whereas hard public information drives arm's-length debt. Banks are much relies on different types of information for each and every landing. Public information primarily drives credit availability and pricing in transactional lending whereas private information determines credit decisions for relationship loans. (Agarwal and Hauswald, 2007). To transfer loans from one debtor to

another debtor, banks might transmit borrower information which is collected in the lending process to potential acquirers. (Ivashina *et al.*, 2005). Comparing corporate loans made by banks and by finance companies, the researcher find that the two types of intermediaries are equally likely to finance information-problematic firms. (Carey *et al.*, 1998). Major study of the researcher is to identify the socio-economic condition of the state bank of India and problem faced by the customers to get loan from the SBI (state bank of India). (Shanmuganathan, 2019). In a study, the lending policies of a sample of UK banks with respect to environment, focusing on issues of environmental risk management, market segmentation and the exploitation of marketing opportunities and researcher found that while the banks are placing considerable emphasis on environmental risk management in their corporate lending operations. (Paul Thompson, 1998) The researcher studied is an attempt to know the customers' perception towards different banks and the problems faced while borrowing the loans from the banks (Chandra, 2015). If moral hazard is sufficient. Then new borrowers will begin their reputation by being monitoring and later switch to arm s length debt (Diamond, 1991).

## RESEARCH METHODOLOGY

The researcher has used both primary and secondary data for study. The primary data were collected from questionnaire (Google form) from the customers of banking sector as well as of arms length sources. The researcher used convenience sampling techniques has been adopted to identify the customer's behavior for the present study. The researcher has collected sample of 94 customers from market. The researcher has different tests like chi-square test, frequency distribution, descriptive statistics and two way ANOVAs.

**Research design:** Descriptive research is chosen for this particular study in order to obtain complete and accurate information.

**Sources of data:** The study is based on primary data that is collected using structured questionnaire through google form with the help of internet.

**Sampling area:** For studying customers behavior of taking loan from different sources Gujarat state is selected as a sampling area.

**Sampling size:** Sampling size of this particular study is of 94 respondents.

**Sampling technique:** Structured questionnaire was sent to potential customers by circulation of google form of different cities of Gujarat.

## DATA ANALYSIS

Table 1: Table Showing Frequency Distribution of Demographic Attributes

Age				
	Frequency	Percent	Valid Percent	Cumulative Percent
Below 21 years	7	7.4	7.4	7.4
21 to 30 years	55	58.5	58.5	66.0
30 to 40 years	11	11.7	11.7	77.7
40 to 50 years	6	6.4	6.4	84.0
50 to 60 years	10	10.6	10.6	94.7
above 60 years	5	5.3	5.3	100.0
Annual income				
	Frequency	Percent	Valid Percent	Cumulative Percent
Below 3,00,000	47	50.0	50.0	50.0
3,00,001 - 5,00,000	26	27.7	27.7	77.7
5,00,001 - 10,00,000	12	12.8	12.8	90.4
More than 10,00,000	9	9.6	9.6	100.0
<b>Total</b>	<b>94</b>	<b>100.0</b>	<b>100.0</b>	

In the demographic analysis of frequency distribution, it is found that male respondents (57%) are nearly equals to the female respondents (43%). Majority of the respondents i.e. 58% are from the age group of 21 to 30 years. This category is followed by 11% respondents who are from the age group of 30 to 40 years. It is also found that the majority of the respondents accounting to 40% are students, followed by the individuals belonging to private service occupation and business and government service are 18% and 5% respectively and housewife are 4%. In the study the researcher found that 50% of the respondents are belonging to the below 3, 00,000 annual income segment.

And it is followed by the 27% respondents who are belonging to the 3, 00,001 to 5, 00,000 annual income. Further 50, 00,001 to 10, 00,000 and more than 10, 00,000 are with 13% and 10% respectively.

**For proving objective 1:** To find out which sector is most preferable from the customer's view point.

**Table 2: Table Shows Frequency Distribution Result**

Preferred loan sector				
	Frequency	Percent	Valid Percent	Cumulative Percent
<b>Banking sector</b>	88	93.6	93.6	93.6
<b>Private money lenders</b>	2	2.1	2.1	95.7
<b>Other financial institutions</b>	4	4.3	4.3	100.0
<b>Total</b>	94	100.0	100.0	

From table 2: researcher can conclude that the banking sector is preferred by 88 respondents and far away only 2 and 4 respondents has selected private money lenders and NBFIs for taking loan respectively. Almost 94% of the respondents preferred the banking sector as the option for taking loan for different purpose. 4 % of the respondents selected other financial institutes as a borrowing option. A certain part of respondents (maximum 2%) selected private money lenders for borrowings. According to the study banking sector is most preferred by the customers for taking loans. Banking sector is selected by 88 customers out of total 94 customers which are 94%. From the frequency study age of customers for taking loan, it can be concluded that majority of the respondent are foaling under the age group of 21 to 30 years (55%).

**For proving objective 2:** To analyze difficulties faced by customers while getting the loan from different sectors.

Table : 3 Table Shows Result Of Chi-Square Testing

	Chi-square	Df	Asymp. Sig.
<b>Lengthy process for documentation</b>	14.617	4	.006
<b>For huge amount of loan mortgage is compulsory</b>	34.723	4	.000
<b>Proper documents are required</b>	32.383	4	.000
<b>Every bank has different policy for providing loan</b>	34.936	4	.000
<b>Difficult to understand the interest and installment calculations</b>	22.809	4	.000
<b>Many time interest rate is higher</b>	15.681	4	.003
<b>Fewer requirement of documents</b>	38.660	4	.000
<b>Interest rate is slightly higher than bank rate</b>	35.468	4	.000
<b>Not available for long term loan</b>	21.000	4	.000
<b>Sometimes for getting loan customers have to take a membership of the company</b>	35.681	4	.000
<b>Documentation work is required</b>	57.489	4	.000
<b>Online fraud is possible</b>	34.298	4	.000
<b>Interest rate is very high than banking sector</b>	18.553	4	.001
<b>Chances of fraud is high</b>	32.170	4	.000
<b>Sometimes executes his own will</b>	46.106	4	.000
<b>Every time it is not easy to take loan without providing security</b>	29.617	4	.000

➤  $H_0$ : There is a no significance difference between person's preferred loan sector and difficulties in taking loan.

➤  $H_1$ : There is a significance difference between person's preferred loan sector and difficulties in taking loan.

With the help of chi-square test researcher can conclude that there is a significance difference between person's preferred loan sector and difficulties in taking loan it proves that the  $H_0$  is rejected. That means customer's choice for selecting a loan sector is not influenced by difficulties faced by them.

**For proving objective 3:** To analyze facilities influencing customer's choice to get a loan from different sectors.

**Table : 4 Table Shows Result Of Kruskal-Wallis Test**

	Chi-Square	Df	Asymp. Sig.
Easy Documentation	3.237	3	.356
Easy to contact bank	1.957	3	.581
Online facility of documentations	2.245	3	.523
From any branch loan process can be done	3.078	3	.380
Many time interest rate is less than market	3.621	3	.305
Easy installment facility	1.710	3	.635
Easy to contact private money lenders	3.843	3	.279
Easy to get loan without long process	9.358	3	.025
More duration of loan period	1.522	3	.677
No requirement of mortgage assets	3.219	3	.359
Amount of loan can be available in cash form	2.693	3	.441
Less interest loan available	4.433	3	.218
Easily available	4.233	3	.237
Short duration loan is easily available at cheaper rate than Private money lenders	1.866	3	.601
Less documentation work is required	3.292	3	.349
Online loan is also available	3.346	3	.341
Fewer requirement of Documents	2.807	3	.422

H<sub>0</sub>: There is a no significance difference between person's preferred loan sector and difficulties in taking loan.

➤ H<sub>1</sub>: There is a significance difference between person's preferred loan sector and difficulties in taking loan.

With the help of Kruskal-Wallis test researcher can conclude that there is a significance difference between person's preferred loan sector and facilities getting by them while taking loan. It proves that the H<sub>0</sub> is rejected. That means customer's choice for selecting a loan sector is not influenced by facilities provided by the different sectors.

**Table :5 Table Shows Result Of Reliability Statistics**

Cronbach's Alpha	N of Items
.948	32

From the above given table The researcher noticed that The researcher applied 32 variable to check the perception of customers toward the facilities provided by the loan sector and difficulties faced by them while taking loan from different loan sectors. The value of Cronbach's Alpha is 0.948 which is Greater than 0.7 which proves higher consistency among all the variables. According to normality test data is not normally distributed so the researcher used non parametric hypothesis.

## FINDINGS

- This research study is mainly concerned with the analysis of customer's choice for taking loan from banks and arms length sources. Majority of the borrowers prefer banking sector for taking loan.
- Customers prefer banking sector most to prefer housing loan. Hence consider housing loan as a primary requirement of the customers.
- However, respondents prefer banking sector as borrowing option as compare to arms length sources, but as arms length sources are in growing condition, this trend can be change in future.

## CONCLUSION

The present study on customer's choice toward taking loan from banking sector and arms length sources covers only Gujarat state. The results of this study show that the majority of the investors consider banking sector as good



option for borrowings. In money lending industry risk is very high, so that banking sector is a good option for middle class family. Business person mostly select arm's length sources for loans because they are providing loans without security mortgage. For personal loan and for small loan of requirement consumers prefer the banking sector as a good option. Banking sectors charge the less amount of interest rate which is the main attraction for the loan takers. Arm's length sources are easily available source of fund for a short term as well as without complicated procedure. For short term loan, without security mortgage loans the arm's length sources are the best option. Arm's length sources are not providing overdraft facility, only one time disbursement is possible which is the weakness of the sector but still this sector is popular amongst the business persons. Still many difficulties are associated with all the sectors but it will improve in near future.

## ABBREVIATIONS

- NBFIs – Non Banking Financial Institutions
- ANOVAs- Analysis Of Variances

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