



## **FACTORS THAT INFLUENCES BORROWERS TO AVAIL GOLD JEWELLERY LOAN**

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### **Abstract:**

Gold loan facilities offered by scheduled Commercial Banks and NBFCs have its unique features, advantages and disadvantages. Gold loans by banks are offered at a lower rate of interest compared to NBFCs. This study aimed to assess the primary factors that gold loan borrowers considered while borrowing loan from either scheduled commercial banks or from NBFCs. The study inferred that the borrower take into consideration of following factors while availing bank loan from either scheduled commercial banks or NBFCs like: easy of loan availability, it best suited to small traders and retailers, procedures of re-pledging same loan in future, reputation and goodwill of lender, simple procedures followed for processing of loan, nature of depreciation of underlying assets and treatment of clients in case of default by the bank or NBFCs. The study found that the gold borrowers highly values the characteristics of lenders like: ethics practiced by them in lending loans, Values considered by the financiers, reliability and dependability of their services. The study observed that the sample gold loan borrowers have expressed high degree of satisfaction with the way they are treated in case of default in loan repayment on time by their financiers, safety ensured for the gold pledged, ease of loan availability and time taken by financial agencies for processing loans.

**Key Words:** Scheduled Commercial Banks, NBFCs & Gold Loan Borrowing

### **Introduction:**

India is considered as the largest loan market in the world, as the age old tradition of lending loan against gold pledging is still in practice in India. Most of financial agencies offer loan against gold jeweleries in India. Right from, framers, to small business entrepreneurs and individual households do not only consider gold as assets, but they treat it as effective and most reliable medium to pledge in case of emergency or whenever financial needs arises. In Indian, in parallel to the organised banking sector and registered NBFCs (Non-Banking Financial Companies), there are many unorganised money lenders like: pawn brokers and local money lenders, who ready accept gold as a medium of borrowing and lending. These unorganised gold loan lenders occupies nearly 1/3<sup>rd</sup> of the market share and rest of the market is served by the organised financial institutions like scheduled and non-scheduled commercial banks i.e., public sector banks, private sector banks, Regional Rural Banks, Co-operative banks, and NBFCs. Most of the middle income class families living across India, especially in South Indians prefer borrowing gold loan for short period to meet the immediate financial requirement like: paying school fee for their children Education, for conduct of marriage of their children and other to solve the financial problems occurred in their family and some the borrowers also thinks that instead of keeping the gold idle at home or locked, Loan against gold is the best option.

### **Statement of the Problem:**

Gold loan facilities offered by scheduled Commercial Banks and NBFCs have its unique features, advantages and disadvantages. Gold loans by banks are offered at a lower rate of interest compared to NBFCs. On the other hand, loan disbursals by NBFCs are much faster compared to a bank. The level of documentation procedures is also lesser in an NBFC compared to banks. The gold loan interest rates of banks are much lower than that of NBFC charges. The security of gold pledge is more in case of commercial banks in comparison to NBFCs. Besides, these mentioned criterions the borrowers' choice of banks or NBFCs for loans purely depends on the circumstances that force the any individual to avail loan against gold pledging. Generally, loan borrowers compare various cause and efforts before availing loan facilities. This practice prevails among households or individuals has motive researcher to conduct this study.

### **Objective:**

This study aimed to assess the primary factors that gold loan borrowers considered while borrowing loan from either scheduled commercial banks or from NBFCs.

### **Methods and Techniques:**

This study is framed based on both exploratory (quantitative) and description research (qualitative) techniques. The study is conducted in the Coimbatore city, known as the business capital of Tamil Nadu. The sample size for the study was determined based on the Gooden's (2004) formula for infinite population.

Samples of 600, respondents were approached for the survey and collection of data. It was observed that more than 25 questionnaires supplied were not returned by the sample population, thus these forty questionnaires were deducted from actual sample, that study constitutes only 575 sample respondents, i.e., the gold loan borrowers.

**Results and Discussion:**

Out of 575, gold loan borrowers surveyed, 50.61 per cent are males and 49.39 per cent are females. The average age of the gold loan borrowers in Coimbatore city ranged between 41-50 years (47.83 percent), thus it can be concluded that people in the middle aged, married family persons with adolescent children more rely on gold loan to meet their immediate and recurring financial needs. Majority of the sample population surveyed live in nuclear families (70.78 percent) and 66.43 percent of the families surveyed are depended on single salary or income sources. The study observed that majority of the borrowers prefer availing gold loan from banks (31.65 percent), followed by co-operative societies (19.48 percent) and from NBFCs (10.61 percent).

Table 1: KMO and Bartlett's Test Primary Reasons that Influenced Borrow to Avail Gold Loan in Comparison to Other Loans

Kaiser-Meyer-Olkin Measure of Sampling Adequacy	.839
Bartlett's Test of Sphericity Approx. Chi-Square	5255.656
DF	210
Sig	.000

Level of Significance: 5 percent

In this study, the value of KMO for overall matrix was found to be excellent (0.839) and Bartlett's test of sphericity was highly significant ( $p < 0.05$ ). Bartlett's Sphericity test was effective, as the chi-square value (5255.656) draws significance at five per cent level. The results thus indicated that the sample taken was appropriate to proceed with a factor analysis procedure. Besides the Bartlett's Test of Sphericity and the KMO Measure of sampling adequacy, communality values of all variables were also observed to be significant

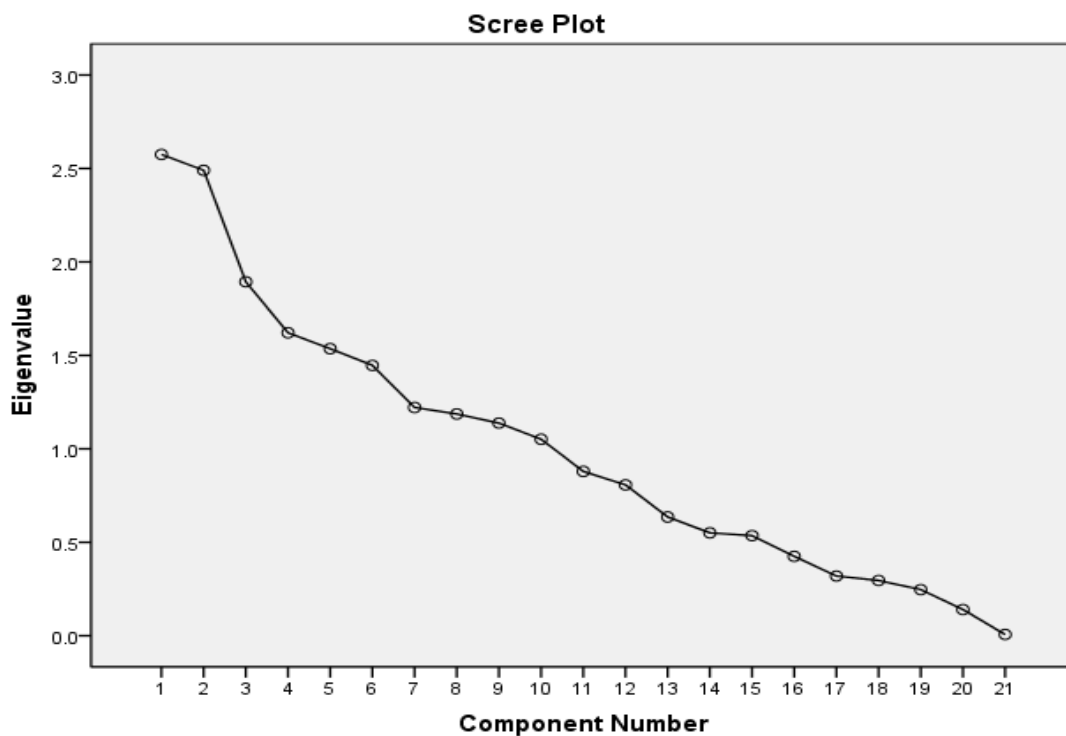
Table 2: Rotated Component Matrix Primary Reasons that Influenced Borrow to Avail Gold Loan in Comparison to Other Loans

Variables	Factors				
	F1	F2	F3	F4	F5
X <sub>1</sub> -Face Issues in getting Personal Loan	-	.535	-	-	-
X <sub>2</sub> -Convenient mode of Borrowing	-	-	-	.542	-
X <sub>3</sub> -Best Suits to Meet Emergency Financial Need	-	-	-	.514	-
X <sub>4</sub> -No Need to Pledge high Value Collateral Securities	-	-	-	-	-
X <sub>5</sub> -Fulfill Short Term Financial Need	-	-	.527	-	-
X <sub>6</sub> -Easiness in Repayment of Debt	-	-	-	.676	-
X <sub>7</sub> -Gold Values Appreciates so a lender does not hesitate to offer loan against gold	-	-	-	-	-
X <sub>8</sub> -Interest and Principle values can be repaid as per Conveniences of Borrowers	-	-	-	-	.550
X <sub>9</sub> -Gold Loan Offering a Strictly Regulated by RBI	-	-	-	.678	-
X <sub>10</sub> -Ceiling on Interest Rate by RBI	-	-	.562	-	-
X <sub>11</sub> -Quick loan disbursement by Bank or financial (Same Day or within few minutes)	-	-	-	-	.691
X <sub>12</sub> -Instance Finance from the Money Lenders	-	-	.584	-	-
X <sub>13</sub> -No Restriction of Due Payment (Flexibility in Repayment)	-	-	.595	-	-
X <sub>14</sub> -Recovery of Assets is Easy	-	-	-	-	-
X <sub>15</sub> -Better Security for Assets Pledge	.616	-	-	-	-
X <sub>16</sub> -More Transparent	-	-	-	-	.692
X <sub>17</sub> -Can Avoid Debt Trap	-	-	-	-	-
X <sub>18</sub> -Best Suitable Loan for Middle Income Families	.607	-	-	-	.549
X <sub>19</sub> -Best Suitable Loan for Small Traders/Venders/Business Entrepreneurs	.633	-	-	.551	-
X <sub>20</sub> -It Help Individuals to Avoid the Burden of Over in Debtiness	-	.556	-	-	-
X <sub>21</sub> -Others	-	.754	-	-	-
Eigen value	2.58	2.49	1.89	1.62	1.54
% of Variance	32.26	21.86	19.07	7.72	7.31
Cumulative	32.26	54.12	73.19	80.91	88.22

Level of Significance: 5 percent

Factor analysis helps in summarizing the total variation explained by the useful factors. Here initial Eigen values give the variance explained by all the possible factors. There are 21 factors, which are equal to the number of variables entered in to factor analysis. Through an analysis of items in each factor, new dimensions were defined (Table 2), excluding items with a value lower than 0.5. Five factors extracted together account for 88.22 percent of the total variance (information contained in the original 21 variables). This is good, because the researcher is able to economise on the number of variables (from 21 researcher have reduced them to five underlying factors), while the data lost only about 11.78 per cent of the information content (88.22 per cent is retained by the five factors extracted out of the 21 original variables).

Exhibit 1: Scree Plot Primary Reasons that Influenced Borrow to Avail Gold Loan in Comparison to Other Loans



A Scree plot is a graph that plots the total variance associated with each factor. It is a visual display of how many factors there are in the data. The Scree plot graphs the Eigen value against the factor number. It has been observed that although there are 21 principal components only five factors have Eigen values over one. So it can expect three principal components in the data. The curve indicates the inflexion on the curve.

#### **Findings of the Study:**

The study inferred that the borrower take into consideration of following factors while availing bank loan from either scheduled commercial banks or NBFCs like: easy of loan availability, it best suited to small traders and retailers, procedures of re-pledging same loan in future, reputation and goodwill of lender, simple procedures followed for processing of loan, nature of depreciation of underlying assets and treatment of clients in case of default by the bank or NBFCs. The study found that the gold borrowers highly values the characteristics of lenders like: ethics practiced by them in lending loans, Values considered by the financiers, reliability and dependability of their services. The study observed that the sample gold loan borrowers have expressed high degree of satisfaction with the way they are treated in case of default in loan repayment on time by their financiers, safety ensured for the gold pledged, ease of loan availability and time taken by financial agencies for processing loans.

#### **Conclusion:**

Gold jeweleries are considered as important medium of lending and borrowing as it offers security to both lenders and borrowers. The lenders can securities their lending loan value with the higher value of gold pledged with them and the borrowers always enjoy the security that his/her assets of gold will be return to them once the principal value and interest values are repaid by them to their financiers. The gold loan market has higher potential to growth in the North and Western India, as these regions holds 45 per cent of market share. The gold loan market can flourish in future, if the financiers like Banks and NBFCs can adopt or follow uniform procedures in their operation, follow more transparency in their processing, fee charged and information imparted to the clients.

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