© 2025 IJRTI | Volume 10, Issue 2 February 2025 | ISSN: 2456-3315

EXPLORING CUSTOMER BARRIERS IN SECURED LOAN

Kritika Singh Yadav, Research Scholar, Amity Business School, Amity University, Lucknow Campus, Uttar Pradesh, India.
kritikayadav005@gmail.com

Dr Richa Raghuvanshi, Assistant Professor OB & HR, Amity Business School, Amity University, Lucknow Campus, Uttar Pradesh, India
rraghuvanshi@lko.amity.edu

Abstract

Purpose: Secure loans are a common financial product, but many people might not fully grasp the intricacies. In research we can explain how they work, the benefits (like potentially lower interest rates) and drawbacks (like risk of losing collateral).

Methodology: This sectoral research is descriptive and exploratory in nature. A questionnaire survey was conducted among customers via social platforms for data collection. Around 200 people were approached to get the questionnaire filled but only 171 responses were achieved. Secondary sources such as research papers published in reputed peer reviewed journals were sourced to review the literature.

Finding: Results indicate that the customer are satisfied with their policies. Though there are some lacking issues that can be rectified with proper maintenance.

Research limitation: Depending on the data sources, the research might be geographically limited (e.g., focusing on challenges in India) or only applicable to a specific demographic (e.g., young adults).

Originality: Explore the challenges faced by individuals applying for secure loans for the first time. What information gaps do they have? What are the common pitfalls they fall into?

Keywords: Secure loan, Collateralized loan, Types of secured loans and Challenges faced by customer.

INTRODUCTION

Secured loans, which mandate collateral to reduce lender risk, are an important financial tool for both individuals and businesses. These loans enable borrowers to obtain larger amounts of credit and benefit from lower interest rates in comparison to unsecured loans. Nevertheless, despite their benefits, various obstacles prevent customers from accessing and effectively using secured loans. These challenges include gaps in financial literacy, complicated documentation demands, risk perceptions, and limitations set by institutions.

Recognizing these challenges is vital for financial organizations, policymakers, and borrowers as well. A lack of understanding regarding secured loans can hinder qualified individuals from seizing financial opportunities, while procedural intricacies can create unwanted obstacles. Moreover, fears related to asset loss and rigid lending criteria contribute to caution among potential borrowers.

To tackle these issues, this research paper investigates the main difficulties customers encounter when applying for secured loans. It seeks to shed light on how these obstacles influence loan accessibility and utilization. The study also looks into other credit options that borrowers might consider and offers suggestions to improve financial inclusion and simplify the secured loan application process.

LITERATURE REVIEW

- **Financial Literacy and Awareness :** A significant obstacle to accessing secured loans is the lack of financial literacy. Research shows that individuals with insufficient understanding of loan conditions, interest rates, and collateral requirements are less inclined to seek secured loans (Lusardi & Mitchell, 2014). Additionally, misconceptions about eligibility criteria and repayment options can deter potential borrowers (Cole, Sampson, & Zia, 2011).

- **Documentation and Procedural Complexity :** The process of documenting secured loans is often elaborate, requiring evidence of income, credit history, and asset possession. Studies indicate that an overwhelming amount of paperwork and bureaucratic processes can discourage potential borrowers, especially in developing countries where formal documentation might not be easily accessible (Beck, Demirguc - Kunt, & Martinez Peria, 2011). Streamlining loan application procedures through digital advancements can improve accessibility.

- **Risk Perception and Fear of Asset Loss:** A significant obstacle to secured loans is the perceived danger of asset repossession in the event of default. Due to the anxiety of potentially losing their property, borrowers may be reluctant to collateralize their assets (Garma & Bove, 2011). Factors related to psychology, such as risk aversion and financial uncertainty, play a crucial role in influencing customers' readiness to obtain loans with collateral (Karlan & Zinman, 2009).

- **Institutional Barriers and Interest Rates:** Elevated interest rates and rigid lending criteria enforced by financial institutions can limit access to secured loans. Research indicates that unfavorable loan conditions, including excessive processing fees and hidden costs, hinder loan acceptance among low- and middle-income borrowers (Banerjee & Duflo, 2014). Moreover, discriminatory lending practices in specific areas heighten exclusion from formal credit markets (Beck & Brown, 2015).

- **Alternative Credit Sources and Loan Substitution:** Borrowers frequently turn to alternative credit solutions, like informal lending or microfinance institutions, to sidestep the complexities associated with secured loans. Studies show that borrowers might favor unsecured loans with higher rates of interest over secured loans due to their convenience and reduced risk of asset forfeiture (Armendáriz & Morduch, 2010). Recognizing the preferences of borrowers can assist financial institutions in creating more effective loan products.

OBJECTIVE

- Pinpoint major obstacles that hinder customers from seeking secured loans.
- Explore how financial knowledge influences access to loans.
- Assess the impact of institutional elements like interest rates and lending regulations.
- Examine alternative credit options and how they affect the demand for secured loans.
- Suggest ways for policymakers and financial organizations to improve access to secured loans.

RESEARCH METHODOLOGY

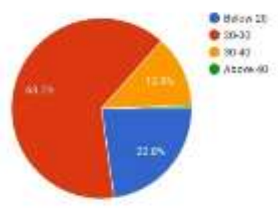
This sectoral research is descriptive and exploratory in nature. A questionnaire survey was conducted among customers via social platforms for data collection. Around 200 people were approached to get the questionnaire filled but only 171 responses were achieved. Secondary sources such as research papers published in reputed peer reviewed journals were sourced to review the literature.

RELIABILITY OF SCALE

This study was based on self-structured questionnaire; therefore, we conducted a reliability test. To test the validity and reliability, we used Cronbach alpha through SPSS.

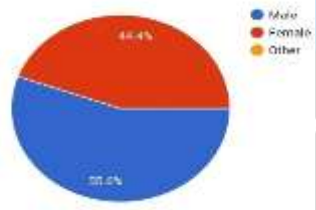
DATA ANALYSIS AND INTERPRETATION

Fig.1 Age group



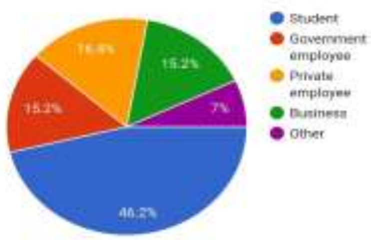
A major part of our respondents is age 20-30 and below 20 from the fig.1

Fig 2 Gender



It is inferred that the majority of the defaulting of the customer were male from the fig.2.

Fig 3 Occupation



It reveals that the most of the defaulting customer are student from the fig. 3

DETAILS OF SIGNIFICANT RESULT

Statement 1. Have you heard of the term "secure loan" before?

Table 1: Statement 1

S.no	Response	Frequency	Percent
1	Yes	162	94.7
2	No	4	2.4
3	Other	5	2.9
4	Total	171	100

According to table 1, a significant majority of participants (94.7%) are familiar with the term "secure loan," while a minor percentage (2.4%) are not acquainted with it. A small number of participants (2.9%) chose the "Other" option, indicating they may have an alternative interpretation or connection to the term.

Statement 2: Would you be more likely to consider a secure loan or an unsecured loan, given similar interest rates and terms?

Table 2: Statement 2

S.no	Response	Frequency	Percent
1	Secured loan	155	90.6
2	Unsecured loan	8	4.7
3	Unsure	8	4.7
4	Total	171	100

According to table 2, when given the option between a secured and an unsecured loan with comparable interest rates and terms, a significant majority (90.6%) of participants showed a preference for secured loans. A mere 4.7% chose unsecured loans, while an identical percentage (4.7%) was indecisive. This suggests a notable tendency towards secured loans when the costs and conditions are equal.

Statement 3: How likely are you to recommend secure loans to others?

Table 3: Statement 3

S.no	Response	Frequency	Percent
1	Very likely	51	29.8
2	Likely	97	56.7
3	Neutral	21	12.3
4	Unlikely	2	1.2
5	Total	171	100

According to table 3, a large majority of participants (86.5%) showed a favorable attitude towards suggesting secure loans, with 29.8% being "very likely" and 56.7% "likely" to recommend them. A smaller segment (12.3%) remained indifferent, while a tiny fraction (1.2%) indicated they would be unlikely to endorse secure loans. This information indicates a generally positive attitude towards recommending secure loans.

Statement 4: Did you repay your secure loan on time?

Table 4: Statement 4

S.no	Response	Frequency	Percent
1	Yes	164	98.3
2	No	3	1.8
3	Total	167	100

According to table 4, a significant majority (98.3%) of participants indicated that they repaid their secured loans punctually, while just a minor percentage (1.8%) acknowledged that they made late repayments. This reflects a robust history of on-time payments among the survey respondents.

Statement 5: If no, what were the reasons for missing payments?

Table 5: Statement 5

S.no	Response	Frequency	Total
1	Financial difficulties	53	32.3
2	Unforeseen circumstances	71	43.3
3	Poor financial management	25	15.2
4	Other	15	9.2
5	Total	164	100

According to table 5, among those who encountered issues with payments on their secured loans, the leading reason given was "unforeseen circumstances at 43.3%, followed by financial difficulties at 32.3%. "Poor financial management" represented 15.2% of the replies, while "other" reasons comprised the remaining 9.2%. This indicates that although financial difficulties are a significant factor, unexpected life events are the main cause of missed payments on secured loans.

Statement 6: How satisfied were you with the secure loan application process?

Table 6: Statement 6

S.no	Response	Frequency	Total
1	Very Satisfied	48	28.6
2	Satisfied	75	44.6
3	Neutral	45	26.8
4	Dissatisfied	0	0
5	Very dissatisfied	0	0
6	Total	168	100

According to table 6, a total of 73.2% of participants indicated they were satisfied with the secure loan application process, with 28.6% feeling "very satisfied" and 44.6% "satisfied." A significant portion (26.8%) reported feeling neutral, while there were no respondents who identified as dissatisfied or very dissatisfied. This suggests an overall favorable experience with the application process, although a considerable number of individuals did not express either satisfaction or dissatisfaction.

Statement 7: Overall, how satisfied were you with your secure loan experience?

Table 7: Statement 7

S.no	Response	Frequency	Percent
1	Very Satisfied	38	22.5
2	Satisfied	89	52.7
3	Neutral	41	24.3
4	Dissatisfied	0	0
5	Very dissatisfied	1	0.6
6	Total	169	100

According to table 7, the overall level of satisfaction with the secure loan experience was considerable, as 75.2% of respondents indicated that they were either "very satisfied" (22.5%) or "satisfied" (52.7%). A lesser percentage (24.3%) remained neutral, and a minimal amount (0.6%) reported feelings of dissatisfaction. This information reflects a largely favorable customer experience with secure loans.

Statement 8: Describe your experience with the secure loan application process. What were the biggest challenges you faced?

Table 8: Statement 8

S.no	Response	Frequency	Percent
1	Lengthy application process	39	23.2
2	Difficulty understanding loan terms	49	29.2
3	Concerns about security of financial information	42	25
4	Unrealistic eligibility requirements	18	10.7
5	High interest rates or fees	11	6.5
6	Other	9	5.4
7	Total	168	100

According to table 8, the most commonly reported issue in the secure loan application process was "difficulty comprehending loan terms" (29.2%), followed closely by "worries about the security of financial data" (25%). A notable number of respondents also indicated a "prolonged application process" (23.2%), whereas a smaller segment identified "unrealistic eligibility criteria" as a challenge (10.7%). This information underscores critical areas where lenders could enhance the application process to improve customer satisfaction.

Statement 9: How important is loan security to you?

Table 9: Statement 9

S.no	Response	Frequency	Percent
1	Important	119	69.6
2	Some where important	49	28.7
3	Not important	3	1.8
4	Total	171	100

According to table 9, loan security is evidently a major consideration for the participants. A large portion (69.6%) view it as "important," while an additional 28.7% regard it as "somewhat important." Merely a tiny percentage (1.8%) stated that loan security is "not important" to them. This information strongly indicates that loan security is a crucial element in the decision-making process of borrowers.

Statement 10: What are your biggest concerns regarding the security of your financial information during the loan application process?

Table 10: Statement 10

S.no	Responses	Frequency	Percent
1	Data breaches	57	33.3
2	Identity theft	62	36.3
3	Unclear data usage practices	42	24.6
4	Other	10	5.8
5	Total	171	100

According to table 10, The main worries about the protection of financial information during the loan application process are "identity theft" (36.3%) and "data breaches" (33.3%). "Ambiguous data usage practices" also pose a considerable concern (24.6%), while "other" issues make up a smaller segment (5.8%). This information highlights the necessity for lenders to tackle these particular apprehensions to foster trust and confidence in their security protocols.

Statement 11: In your opinion, what features would make a secure loan product more attractive?

Table 11: Statement 11

S.no	Response	Frequency	Percent
1	Lower interest rates	43	25.3
2	Faster application process	50	29.4
3	More transparent loan terms	31	18.2
4	Flexible repayment options	24	14.1
5	Strong security measures for data protection	15	8.8
6	Other	7	4.1
7	Total	170	100

According to table 11, the most appealing aspects of a secure loan product are a "quicker application process" (29.4%) and "reduced interest rates" (25.3%). The factor of "more transparent loan terms" also holds significant value (18.2%), followed by "adaptable repayment options" (14.1%). While "robust security measures for data protection" are considered important, they are mentioned less frequently (8.8%), and "other" factors account for the remaining share (4.1%). This information indicates that speed, cost, and transparency are the primary elements that contribute to the attractiveness of a secure loan product.

Statement 12: How would you rate the transparency of fees and charges associated with the secure loan?

Table 12: Statement 12

S.no	Response	Frequency	Percent
1	Very transparent	43	25.6
2	Somewhat transparent	71	42.3
3	Neutral	52	31
4	Not very transparent	1	0.6
5	Not transparent at all	1	0.6
6	Total	168	100

According to table 12, 67.9% of respondents viewed the fees and charges linked to secure loans as either "very transparent" (25.6%) or "somewhat transparent" (42.3%). However, a notable portion (31%) remained neutral in their opinions. Only a tiny percentage (1.2%) considered the fees and charges to be not very transparent or completely lacking in transparency. This indicates that, although transparency is largely perceived in a favorable light, there remains a significant number of individuals who neither agree nor disagree, suggesting there is still potential for lenders to enhance the clarity of fee information.

Statement 13: To what extent did the identified problems impact your overall experience with secure loans?

Table13: Statement 13

S.no	Response	Frequency	Percent
1	Very negatively	31	18.5
2	Negatively	67	39.9
3	Neutral	68	40.5
4	Positively	2	1.2
5	Very positively	0	0
6	Total	168	100

According to table 13, the issues identified had a largely adverse effect on the overall experience with secure loans. A total of 58.4% of survey participants indicated that they were either "very negatively" (18.5%) or "negatively" (39.9%) affected. A noteworthy percentage (40.5%) remained neutral, while only a tiny fraction (1.2%) reported a positive effect. This information suggests that the obstacles encountered by borrowers considerably diminish the overall secure loan experience, even though a significant number remained neutral, implying they may not have experienced issues or that those problems were not severe enough to adversely affect their experience.

Statement 14: Once approved, how easy was it to understand the terms and conditions of your loan?

Table 14: Statement 14

S.no	Response	Frequency	Percent
1	Very easy	32	18.8
2	Easy	81	47.6
3	Neutral	54	31.8
4	Difficult	1	0.6
5	Very difficult	2	1.2
6	Total	170	100

According to table 14, a total of 66.4% of participants rated the loan terms and conditions as either "very easy" (18.8%) or "easy" (47.6%) to comprehend, while a notable proportion (31.8%) remained neutral. A minor percentage (1.8%) indicated that they found it either "difficult" or "very difficult." This information implies that although a majority of borrowers perceive the terms and conditions as clear, there is still a significant number who neither agree nor disagree, highlighting possible areas for enhancement in both clarity and accessibility. The small percentage encountering challenges further emphasizes this notion.

Statement 15: Did you find the process for making loan repayments convenient?

Table 15: Statement 15

S.no	Response	Frequency	Percent
1	Very Convenient	30	17.5
2	Convenient	93	54.4
3	Neutral	45	26.3
4	Inconvenient	1	0.6
5	Very inconvenient	2	1.2
6	Total	171	100

According to table 15, a large majority of respondents (71.9%) considered the loan repayment process to be convenient, with 17.5% rating it as "very convenient" and 54.4% as "convenient." A considerable number (26.3%) expressed a neutral opinion. Only a small percentage (1.8%) found the process to be inconvenient. This indicates an overall positive experience with the repayment process; however, the neutral responses suggest there may be opportunities to enhance user-friendliness.

Statement 16: Based on your experience, would you recommend applying for a secure loan?

Table 16: Statement 16

S.no	Response	Frequency	Percent
1	Definitely Yes	62	36.7
2	Probably Yes	83	49.1
3	Neutral	24	13.6
4	Probably No	0	0
5	Probably No	0	0
6	Total	169	100

According to table 16, a significant majority of participants indicated they would suggest applying for a secure loan. 36.7% responded with "definitely yes," while 49.1% chose "probably yes," leading to a total positive response rate of 85.8%. Only 13.6% remained neutral, and no respondents selected "probably not" or "definitely not" in their recommendations. This reflects a strong level of favorable sentiment towards recommending secure loans based on personal experience.

CONCLUSION

The hurdles to obtaining secured loans arise from a lack of financial literacy, complicated procedures, perceptions of risk, issues within institutions, and the presence of other credit options. Tackling these issues necessitates a comprehensive strategy that incorporates financial education programs, streamlined loan processes, and loan structures centered around the needs of borrowers. Further studies should investigate new lending models that promote financial inclusion while ensuring the security of lenders.

Research Considerations:

While conducting research for your paper, take into consideration looking into the following other areas:

- Economic factors' effects on the conditions of secured loans, such as interest rates and collateral value
- The function of alternative lenders, such as internet lenders, in the secured loan market
- Techniques to reduce the chance of losing collateral (like carefully calculating the loan amount)

REFRENCES

- Armendáriz, B., & Morduch, J. (2010). The Economics of Microfinance. MIT Press.
- Banerjee, A., & Duflo, E. (2014). Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty. PublicAffairs.
- Beck, T., & Brown, M. (2015). Foreign Bank Lending and Access to Credit. Journal of Financial Intermediation, 24(4), 608-631.
- Beck, T., Demirgüç-Kunt, A., & Martinez Peria, M. S. (2011). Banking Sector Stability, Efficiency, and Outreach. World Bank Policy Research Working Paper.
- Cole, S., Sampson, T., & Zia, B. (2011). Prices or Knowledge? What Drives Demand for Financial Services in Emerging Markets? Journal of Finance, 66(6), 1933-1967.
- Garma, R., & Bove, L. (2011). Perceived Risk and Financial Services: An Empirical Investigation. Journal of Financial Services Marketing, 16(1), 4-17.
- Karlan, D., & Zinman, J. (2009). Observing Unobservables: Identifying Information Asymmetries with a Consumer Credit Field Experiment. Econometrica, 77(6), 1993-2008.
- Lusardi, A., & Mitchell, O. S. (2014). The Economic Importance of Financial Literacy: Theory and Evidence. Journal of Economic Literature, 52(1), 5-44.