Journal of Positive School Psychology
2022, Vol. 6, No. 3, 7476 – 7482 http://journalppw.com

DO CUSTOMER LIKE EMI MORATORIUM? INSIGHT FROM INDIAN CONTEXT.

Dr. T. Joseph[1]
[1]*Associate Professor, Loyola College (Autonomous), University of Madras, Chennai, India*
Email ID: profjosepht@loyolacollege.edu
Mr. P. William Robert[2]
[2]*Assistant Professor, Saveetha School of Management, Saveetha Institute of Medical and Technical Sciences, Saveetha University, Chennai, India.williamrobert.ssm@saveetha.com*
Dr. J. Jesu Kulandairaj[3]
[3]*Assistant Professor, Loyola College (Autonomous), University of Madras, Chennai, India Email ID: jesukraj@loyolacollege.edu*

ABSTRACT

Moratorium helps the borrowers to plan the expenses when there is income uncertainty during the crisis of Covid. It helps the borrowers to reduce the financial stress which helps to plan and prioritize the payment of debt. Therefore, moratorium is not a waiver, unpaid Equated monthly installments (EMI) will be added to the principal which in turn add burden for the borrower to settle remainder of loan tenure. This paper proposes the framework of studying perception of customers towards the EMI moratorium. The perception of EMI moratorium is examined from using the data from Chennai Bank customers of Loan. Our Results indicates that eight factors determine the EMI moratorium from this study. Additionally, the most significant factor is Bank assistance. The study theoretically constitutes the insights into the payment of loan and practically will help the bank to policy and guidelines for the Moratorium of the Loan.

Keywords: Moratorium, Equated monthly installments (EMI), financial stress, Covid, Bank loan, Assistance.

INTRODUCTION

The Reserve Bank of India (RBI) has announced an EMI moratorium on loan for the period of six months due to the financial problems in the country. EMI moratorium is a period where the bank gives break for the customers for the payment of EMIs (Equated Monthly Instalments) and it is also called as EMI Holiday. Loan refer to the specified amount which is borrowed by the customer from the bank for the specific asset or the purpose which has to be repaid by the customer after the specific period along with the interest rate mentioned in the document. To reduce the burden of the customer the in the repayment of the loan, the bank has come up with the process called Equated Monthly Instalment (EMI) in 1960's. EMI refers to amount which has to paid every month along with the interest for the repayment of the loan. The EMI tenure is based on the loan amount and the customer capacity. Usually, the bank charges simple interest for the loan and if the customer made the default in the payment of EMIs the bank will charge the default interest which is a higher interest rate charged by banks. The EMI Holiday is available for all the loans and credit cards. This will not affect the credit score of the customers.

EMI moratorium is offered for the period of 1st March 2020 to 31st August 2020 by RBI. The customers can avail the moratorium by applying to the respective banks. It can be applied through online or by approaching the bank directly. Only if the customer apply for EMI holiday the bank will considered as moratorium, otherwise it is considered as a default EMI. If the customer has not applied for the moratorium and the account has fund to fulfil the EMI the amount will be deducted by the bank. And if the customer wants moratorium after the payment of the EMI though the customer can apply for the moratorium and get back refund from the bank. For the period of moratorium the bank charges interest for the loan amount outstanding and that has to be paid by the customers at the end of the loan period. So the EMI tenure has been extended by the banks for the period customer opted moratorium.

EMI payment in lockdown has become a contentious issue between many borrowers and banks or other lenders. While the intention of the RBI to allow banks to offer EMI moratorium on term loans — such as home loan, car loan, personal loans, credit cards — was to provide a short-term liquidity relief to the borrowers, the cost implication of such a moratorium has been estimated to be huge. The borrowers' mindset has changed quite significantly with regards to loan repayment as well as investments – especially since the RBI has announced a three-month extension of the moratorium on loans, i.e. till August 31, 2020. Earlier in March 2020, all commercial banks, including housing finance companies, were allowed to extend a moratorium of 3 months on the monthly instalments in respect of all term loans outstanding as on March 1, 2020. Any borrower who avails the RBI's moratorium scheme will not see any negative impact on his or her credit score. Later, in May 2020, the RBI EMI moratorium scheme was extended by another 3 months till August 31. For EMI-based term loans, the borrowers can choose to delay the payments of the EMIs for 6 months, falling due between 1st March 2020 and August 31, 2020.

During the pandemic situation Covid19 many of the people are facing financial problem in the country and most of the people are suffering to pay the rents, loans, EMIs etc. Hence, the RBI has announced an EMI holiday for customers of all the banks for relief of paying EMIs during this Covid19 situation. So, the author decided to make a study on the customer's perception towards EMI Moratorium and to make a detailed study about the EMI Moratorium procedure.

REVIEW OF LITERATURE

Ishita Das, et al. (2019) the study aimed at the loan decided making process. And the research identified that, the customers having old loans with the good repayment history has first priority and customers who wants loan for the first time has less priority. As a result several parameters has been identified for the customers has less priority for the fresh loan.

Souvik Ghosh (2014) aims to determine the loan approval process to the costumers for housing loan and how the banks verify the credit worthiness of the customers and various other ways to approve the loan. Hence, the study results in the housing loan approval process of the commercial banks in India.

SCH, S. (2017). Concentrated on the student's educational loans and the repayment of such loans in India. Due to the economic factors many have default in the repayment of the loans. Atlast the study suggested different methods to the customers to avoid the chance of defaults.

Manoj, P. K. (2015). The paper identifies Housing Micro Finance's (HMF) quality, transaction cost and default interest rates for the housing loans. Most of the poor and weaker sections of the economy are affected. Therefore, the paper suggested some of the measures to the HMF administration.

Dev, S. M et al (2020). The paper identifies the impact of Covid19 on economic activities in India and the potential access to protect from the shock of various segments. The Central Government and Reserve Bank provides various policies to prevent from the risk and economic shock for the various sectors.

Bose, S. K., et al (2009) this article aims at the EMI related issues in behalf of both the lenders and borrowers and the repayment of amount in the monthly instalments. It results in the situation where both the lenders and borrowers handle the impact in the varying in interest rates and compounding EMIs.

Wadekar, S., et al (2020) this paper represents the types of loan in State Bank of India (SBI) and the eligibility criteria of the customer, documentation charges etc., To know the types of loans acquired by the customers of SBI.

Saddy, N. K(2015). Aims at the comparative study on both the public and private sector banks, how they provide loans, documentation scrutiny, repayment capacity, credit score and assets of the borrowers. Therefore, public sector banks are performing well in the lending process than private sector banks and there is more risk for the banks in fund based lending.

Bandyopadhyay, A. (2016) paper determines the level of risk and default in repayment of borrowers of educational loans in India. The guarantor and collateral reduces the loss of defaults in the repayment of the loan. As a result, the banks can adopt a better measures to reduce the risk of default in repayment of borrowers.

Corwin, P. S. (1987) determines accurately what are the products and services are comes under the moratorium to ensure bankers to move forward. Hence, it becomes the legislative history for the future reference.

Kahn, C., et al (2005) aims at the analysis of the interest rates of personal and auto loans of public sector banks. It seems to be personal loans has the higher interest rates than the auto loans. This study suggest that both the loans treasury rates are high and there is no fall in the interest rates.

Booker, T. P. (2010). Studied the borrowers performance based auto loans in the deduction of the default interest rates. Therefore, it is based on the performance, repayment period, timely payment, loyalty, credit score and greater experience of the borrowers.

Kapur, R (2021). Aims to initial ways of lending for the educational loans. The main aspects that have been taken into account in this research paper are, the structure of education in India, the significance of financial education, ways of financing education, and factors identifying the needs for pioneering financing for education.

Collins, J. M., et al (2018) the study aims at the impact of loan moratorium offered by the court to the borrowers. Hence it becomes negative to both the lenders and the borrowers which doesn't fulfil the foreclosure of the loan repayment.

Hoffman, A. I. (2008). The paper determines the methods for creating the mortgage moratorium, comprising the following the steps: creating an equity loan amount to be loaned based upon the value of a mortgagee's property; determining the monthly payment on the loan; determining a period of months which the mortgagee desires to avoid personally making monthly payments; placing a portion of the loan amount equal to the monthly payments for the desired period of months into a fund; and making the monthly payments for the predetermined period from the fund.

Gupton, G. M., et al (2000) studied about the loss of banks in the default loans. After the period of one month bank allows to value the amount of debt and the examination of the loss.

Thiagarajan, S., et al (2011) determines the credit risk factor in the commercial banking sector. As a result, macroeconomic factors and banking factors will determine the credit risk of the commercial banking sector.

Cebenoyan, A. S., et al (2004) paper investigates about the credit risk for banks in lending loans to the borrowers. The study suggested that the banks has great management of the credit risk will operate at higher level.

Weston, J., et al (1996) determines the Small banks are a major source of credit for small businesses. As banking consolidation continues, will a resulting decline in the presence of small banks adversely affect the availability of that credit.

Bandyopadhyay, A., et al (2011) aims at the credit risk and repayment of housing loan in India. Several factors are taken into account on lending the housing loan and the credit risk has to be ensured along with marital status, housing preferences, job, credit worthiness etc., will lead to trigger the default in the repayment.

Methodology and Analysis

The Customers of Bank loan who have availed EMI holiday been targeted to collect the data for this research. The self-structured Questionnaire is designed to measure the EMI moratorium. Questionnaire with questions of demographic profile and perception of customers towards EMI Moratorium has been circulated to towards the 140 customers of Bank loan. Collected data analysed using frequency, mean, factor. Demographic profile of Customers is discussed in Table No.1

Table No.1 Demographic Profile of the Customers

Gender	**Frequency**	**Percent**	**Age**	**Frequency**	**Percent**
Male	98	70	20-30	49	35
Female	42	30	31-40	45	32.1
Total	140	100	41-50	36	25.7
Marital status	**Frequency**	**Percent**	Above 50	10	7.1
Married	97	69.3	Total	140	100.0
Unmarried	43	30.7			
Total	140	100.0	**Occupation**	**Frequency**	**Percent**
Loan Opted Bank	**Frequency**	**Percent**	Government employ ee	20	14.3

Public Sector Bank	46	32.9	Private	57	40.7
Private Sector Bank	63	45.0	Self-employed	37	26.4
Other Financial Institution	31	22.1	Professionals	26	18.6
Total	140	100.0	Total	**140**	**100.0**
Types of loan	**Frequency**	**Percent**	**Annual Income**	**Frequency**	**Percent**
Personal loan	22	15.7	Below 200000	19	13.6
Auto loan	48	34.3	200001-300000	38	27.1
Home loan	31	22.1	300001-400000	44	31.4
Other loan	39	27.9	Above 400000	39	27.9
Total	140	100.0	Total	140	100.0
EMI amount	**Frequency**	**Percent**	**Loan amount**	**Frequency**	**Percent**
Below 10000	49	35.0	Below 500000	55	39.3
10001-15000	38	27.1	500001-1000000	36	25.7
15001-20000	23	16.4	1000001-1500000	21	15.0
Above 20000	30	21.4	Above 1500000	28	20.0
Total	140	100.0	Total	140	100.0
EMI Tenure	**Frequency**	**Percent**			
Below 24 Months	18	12.9	**Moratorium Period**	**Frequency**	**Percentage**
25-36 Months	41	29.3	1-2 Months	56	40.0
37-48 Months	37	26.4	3-4 Months	44	31.4
Above 48 Months	44	31.4	5-6 Months	40	28.6
Total	**140**	**100.0**	Total	**140**	**100.0**

Majority of the Customers were Male (70%) and Married (69.3%). Nearly 35% of age level falls in the level 20-30 years followed by 31-40 years (32.1 %), 41-50 years (25.7%) and more than 50 years (7.1%).Occupation status of the customers are frequently Private (40.7%) followed by self-employed (26.4 %) and the remaining are professional (18.6 %) and government employee (14.3 %).
Major Income level of the customers are 300001-400000 (31.4%) followed by Above 400000 (27.9%) and 200001-300000 (27.1 %).
Majority of the bank loan are from the customer of private sector bank (45 %) than public sector bank (32.9%). Frequent type of loan of customers are Auto loan (34.3%), Other loan (27.9%), Home loan (22.1%) and the remaining are Personal loan (15.7%)

Mostly the EMI amount of the customers is below Rs 10,000 (35%) followed by Rs 10,001-15,000 (27.1%), Above Rs 20,000 (21.4%) and Rs 15,001-20,000 (16.4%).
The Loan amount of the customers are Below Rs 5,00,000 (39.3%) followed by 5,00,001-10,00,000 (25.7%), 10,00,001-15,00,000 (15.0%).
Majority of the customers EMI tenure is above 48 months (31.4%), followed by 25-36 months (29.3%), 37-48 months (26.4%) and below 24 months (12.9%).
Majority of the customers are opted moratorium for 1-2 months (40.0%), 3-4 months (31.4%) and 5-6 months (28.6%). Table No.2 discussed about the Perception of customers towards Emi Moratorium.

Table No.2 Perception of EMI Moratorium

S.No	Perception of EMI Moratorium	Mean	Rank
1	I aware of EMI moratorium passed by RBI. (Awareness)	4.17	1
2	Bank guides to apply for moratorium. (Assist)	3.95	3
3	It is easy to apply for moratorium. (Easy)	3.78	5
4	I are aware of the additional interest rates charged by bank for moratorium (Additiona Interest)	3.99	2

5	The interest rates charged are reasonable (Reasonable)	2.16	20
6	Extending the EMI tenure is burden for customers. (Burden)	3.52	11
7	I applied moratorium through online. (Online)	3.65	9
8	I completely understands the EMI moratorium process. (Understands)	3.33	13
9	I availed refund of EMI from bank after applying moratorium. (Refund)	2.57	19
10	I am aware of the credit card moratorium. (Credit Card)	3.50	12
11	I will pay the default EMIs before the completion of loan tenure. (Default EMIs)	3.31	14
12	Opting moratorium will affect the credit score. (Credit Score)	2.99	17
13	I think bank gets more benefits than customers. (Benefits)	3.90	4
14	Opting moratorium will benefits customers than paying EMI on actual time. (Actua Time)	2.68	18
15	Opting moratorium will affect self-employed very badly. (Self-employed)	3.75	6
16	Moratorium will affect the banks cash flow. (Cash Flow)	3.62	10
17	I think default interest rate can be charged by bank than EMI Moratorium. (Defaul Interest Rates)	3.30	15
18	This is the first time I made default in paying EMIs. (First Time)	3.71	7
19	EMI moratorium is a good regulatory guideline by RBI. (Guidelines)	3.70	8
20	EMI moratorium is risk for customers. (Risk)	3.05	16

The mean score and rank are displayed in table 2. It shows variable "Aware" includes highest mean score of 4.17 followed by Additional interest (3.99), Assist (3.95), Benefits (3.90), Easy (3.78), Self-employed (3.75), First time (3.71), Guidelines (3.70), Online (3.65), Cash Flow (3.62), Burden (3.52), Credit Card (3.50), Understands (3.33), Default EMIs (3.31), Default Interest Rates (3.30), Risk (3.05), Credit Score (2.99), Actual Time (2.68), Refund (2.57) and the least mean score is Reasonable (2.16). All the mean scores are lies between 2 to 4. It concludes that respondents are agreeing towards all the mentioned factors.Table 3 and 4 discussed the results of factor analysis.

Table No 3 Data Sufficiency and Variance

S.NO	KMO	Factors	Total	% of Variance	Cumulative %
1	0.718	Component 1	3.839	19.193	19.193
2		Component 2	1.441	7.205	26.398
3		Component 3	1.384	6.921	33.319
4		Component 4	1.354	6.768	40.088
5		Component 5	1.353	6.764	46.852
6		Component 6	1.309	6.547	53.399
7		Component 7	1.222	6.110	59.509
8		Component 8	1.115	5.574	65.083

The data sufficiency for doing factor analysis is measured by KMO. In this case, the value is greater than 0.6. There are total six components with cumulative percent of 0.718. It conveys that data is sufficient for doing factor analysis. Moreover, 20 parameters are clubbed into eight factors.

Table No.4 Factor Loadings

Perception of EMI Moratorium	Components							
	1	2	3	4	5	6	7	8
Assist	.826							
Easy	.824							
Aware	.710							
Credit Card	.690							
Online	.684							
Additional Interest	.639							
Understands	.583							
Self-employed		.705						
Cash Flow		.671						
Risk		.583						
First Time			.784					
Guidelines			.543					
Reasonable				.748				
Refund				.493				
Default Interest Rates					.566			
Benefits						.833		
Credit Score							.715	
Default EMI's							.520	
Burden								.893

Table 3 shows factor loadings of each variable. Parameters of Assist, Easy, Aware, Credit card, Online, Additional Interest, and Understands from factor 1 which is named as assist. Factor 2 contains Self-employed, Cash Flow and Risk which is named as Risk. Factor 3 contains First time and Guidelines which is named as Guidelines. Factor 4 contains Reasonable and Refund which is named as Reasonable. Factor 5 takes Default interest rates. Factor 6 contains benefits. Factor 7 contains Credit Score and Default EMI's which is named as Credit Score. Burden listed in last factor.

Discussion

The interest rates calculated for the moratorium period are higher. It can be reduced. The interest rates are calculated in the principal outstanding amount for opting the EMI moratorium. So, the interest is becoming huge burden for the customers. It can be calculated for the period of moratorium opted as monthly penalty. Many are facing difficulties in opting the EMI moratorium. So, the banks have to make it simple. Even though the customer applied for the moratorium, if the customer's account is funded with the sufficient amount, banks are taking the EMI amount. So, banks have to concentrate of these issues. EMI Holiday have to be extended until the pandemic situation gets back to the normal situation. Tax have not to be implicated on the loan amount. From this study it is inferred that Self employed customers are find very difficult after availing the EMI moratorium compared to salaried employee during the crisis of Covid. However salaried people are comfortable for the moratorium which helps them to plan the expenses and reduce the financial stress.

Conclusion

The factors determining the EMI moratorium of the customers are Assistance, Risk, Guidelines, Reasonable, Default interest rates, Benefits, Credit Score, Burden.Opting the offered loan moratorium facility without thinking it through could lead to bigger financial complications in the future. More importantly, this moratorium by no means is a loan waiver. Repaying your loans is a legal and moral obligation, and this moratorium doesn't change that a bit. So, if your cashflow hasn't changed much in these months, you should ideally try to clear your dues without the help of the moratorium, especially when it comes to high interest-charging debt, and in case you don't have any other option, ensure you have a plan to repay all your dues, including any additional interest charges, soon after the moratorium ends. Therefore if it would be really a help for the customer during the time of Covid not charging interest on the defaulting period by the government.

References

Das, I., Roy, S., Chatterjee, A., & Sen, S. (2019). A Data Warehouse Based Schema Design on Decision-Making in Loan Disbursement for Indian Advance Sector. In Emerging Technologies in Data Mining and Information Security (pp. 603-614). Springer, Singapore.

Ghosh, S. (2014). Housing Finance in India and Appraisal Process of Home Loans with Specific reference to Indian Overseas Bank‟. International Journal of Science and Research, 3(8), 129-135.

SCH, S. (2017). A Study on Impact of Student Loans on India and Student Loan Repayment Model for India (Doctoral dissertation, Symbiosis International University).

Manoj, P. K. (2015). Housing Microfinance: A Study on Quality, Cost and Default Rate with Respect to Bhavanashree in Kerala. International Research Journal of Finance and Economics, 13, 7-20.

Dev, S. M., & Sengupta, R. (2020). Covid-19: Impact on the Indian economy. Indira Gandhi Institute of Development Research, Mumbai April.

Bose, S. K., & Mukherjee, D. D. (2009). On the Merits of Equated Monthly Installments Method of Term Financing: Some Analytics and Arithmetics. IUP Journal of Bank Management, 8(1), 73.

Wadekar, S., & Waghmare, M. N. D. (2020). Analysis of Various Types of Loans with State Bank of India. Studies in Indian Place Names, 40(70), 4651-4665.

Saddy, N. K.(2015) Loan Practices: A Comparative Study of Lending Practices of Public and Private Sector Banks. Scholars Academic and Scientific Publishers, 2(1B),117-127.

Bandyopadhyay, A. (2016). Studying borrower level risk characteristics of education loan in India. IIMB Management Review, 28(3), 126-135.

Corwin, P. S. (1987). A Banker's Guide to the Moratorium. American Bankers Association. ABA Banking Journal, 79(10), 73.

Kahn, C., Pennacchi, G., & Sopranzetti, B. (2005). Bank consolidation and the dynamics of consumer loan interest rates. The Journal of Business, 78(1), 99-134.

Booker, T. P. (2010). U.S. Patent No. 7,769,683. Washington, DC: U.S. Patent and Trademark Office.

Kapur, R. (2021). Pioneering ways of financing education. International Journal of Information, Business and Management, 13(2), 157-166.

Collins, J. M., & Urban, C. (2018). The effects of a foreclosure moratorium on loan repayment behaviors. Regional Science and Urban Economics, 68, 73-83

Hoffman, A. I. (2008). U.S. Patent Application No. 11/734,087.

Gupton, G. M., Gates, D., & Carty, L. V. (2000). Bank loan loss given default. Moody's Investors Service, Global Credit Research, November.

Thiagarajan, S., Ayyappan, S., & Ramachandran, A. (2011). Credit risk determinants of public and private sector banks in India. European Journal of Economics, Finance and Administrative Sciences, 34(34), 147-153.

Cebenoyan, A. S., & Strahan, P. E. (2004). Risk management, capital structure and lending at banks. Journal of Banking & Finance, 28(1), 19-43.

Weston, J., & Strahan, P. E. (1996). Small business lending and bank consolidation: Is there cause for concern? Current issues in Economics and Finance, 2(3).

Bandyopadhyay, A., & Saha, A. (2011). Distinctive demand and risk characteristics of residential housing loan market in India. Journal of Economic Studies.