DEBT MANAGEMENT PRACTICE AMONG LOW INCOME HOUSEHOLDS IN COIMBATORE CITY

Dr. J. Thiravia Mary Gloria,
Head of the Department of Commerce, Bishop Ambrose College, Coimbatore-641045.
Mrs.Dr. P. Shanthi,
Professor**,** Avinashilingam Institute for home science and highereducation for women, Coimbatore-641045.

Abstract

Macroeconomic stability, financial sector development and government policies have all played an important role in influencing the supply of demand for mortgages and other household credit, Financial liabilities is a contractual obligation to deliver cash or similar to another entity or a potentially unfavorable exchange of financial assets or liabilities with another entity. Debt is a major constrain for low income households. The sample size of the study 600 low income households was taken into consideration. Satisfied sampling was used for this study. The study found that55 percent of the low income households had financial liabilities and borrowed by pledging jewel and mortgage on property. Affordable Housing for all by 2022" is an immensely daunting challenge that will require the triangulation of government, international capital, and private sector efforts to even put a dent in the massive number of households that lack adequate homes. The challenge is also an exciting opportunity to inspire public-private partnerships that widely serve low-income Indians in their most fundamental needs.

Keywords: Low-income households, Financial liabilities.

Debt Management practice among low income households in Coimbatore city

Introduction

The recent global 'credit crunch' followed a sustained period of readily available credit and rising household indebtedness in India. Its impact has been characterised by restriction of access to credit, increased unemployment and rises in the cost of living – particularly for people living in households on low incomes. (Chris Dearden, 2010). Macroeconomic stability, financial sector development and government policies have all played an important role in influencing the supply of demand for mortgages and other household credit, Financial liabilities is a contractual obligation to deliver cash or similar to another entity or a potentially unfavorable exchange of financial assets or liabilities with another entity. Debt is a major constrain for low income households (Norhanat and Toh, 2007). The study focus on debt management practice among low income households in Coimbatore city.

Review of literature

It is well established that the poor households' ability to save is seriously crippled by lack of available savings instruments which are safe and dependable **(Rutherford, 1999, 2000).** In their groundbreaking Portfolios of the Poor,(**Collins, Morduch, Rutherford and Ruthven,2010**)discuss what they call the 'triple whammy' situation that the poor face; namely, that the poor not only have very low and unpredictable incomes but also have inefficient financial instruments to manage such income flows and this makes their money-management task even tougher. As (**Banerjee and Duflo ,2011)** note in yet another landmark publication on the subject, Poor Economics, "risk is a central fact of life for the poor, who often run small businesses or farms or work as casual laborers, with no assurance of regular employment.

Statement of the problems

The family is averse to credit, even if they have to borrow money, they will not go to a formal bank, they will prefer local money lender. Why? There is wide spread misconception among illiterates that borrowing from banks is not for the illiterate. They prefer a money lender over a bank when it comes to emergency needs of funds. As India's real estate boom has catered almost exclusively to the upper middle class and elite, who have become richer over the past few decades, it is obvious that the "all" in the "Housing for all by 2022" naturally translates to India's lower-income population. Low-income Indians disproportionately bear the brunt of the deficiency. So, that study concentrate that Debt management practice among low income households in Coimbatore city.

Objectives of the study

The following are the objectives of the study

- To understand the socio economic status of the low income households.
- To assess financial liabilities of low income households.
- To analyse the socio economic status and financial liabilities of low income households.

Methodology

Sources of data

The primary data of the study has been collected though a well-structured interview schedule secondary data has been collected from journals, Government reports and publications

Sampling

The stratified sampling method applied for the selection of proposed sample size of 600 low income households from Coimbatore city, Tamilnadu. The data has collected well structured interviewed schedule from low income households.

Tools for analysis

The tools were applied to analyses the data collected were descriptive statistics and Chi-squares test.

Result and Discussion

Distribution of the Respondents based on Socio-economic and Demographic profile

An attempt is made to understand the socio-economic profile of the respondents from low income households in Coimbatore district with view to analyze the influences and impact of various socio economic factors affected on financial liabilities.The age wise classification of the respondent shows that, of the total respondents, 66.20 percent belong to the age group of 30 to 50 years, followed by 17 percent were above 50 years and the remaining 16.8 percent were in the age group of 18 to 29 years. The gender-wise classification shows that, of all the respondents 70.70 percent were male and 29.30 percent were female. The respondents male were the head of the household. 87 percent were married, 10.5 percent were unmarried and remaining 2.5 percent were separated/widows.

Educational status of the respondents determines their financial literacy to a great extent. The Educational qualification shows that, Of the total respondents, 74.30 percent completed studies up to school level, 9.70 percent were graduates, 7.50 percent were post graduates, very meager percent were vocational trained and the rest 7.20 percent have no formal education. Of the total respondents, 82.20 percent were employed in unorganized sector and remaining 17.80 percent in organized sector. Of the total respondents, 33 percent have three members in the families, 30.80 percent have four member families, 19 percent have two member families and remaining 17.20 percent have four members in their families

Of the total respondent, 35.20 percent have two dependents in the households, 28.80 percent have only one dependent, 23.20 percent have four or more dependents and 12.80 percent have three dependents.The earnings of the respondent are complemented by the members of the household; the family members contribute to the total income of the family could ultimately contribute to the saving. Of all the respondents, 52 percent have two earning members in the family, 37.80 percent have one earning member in the family, 8.30 percent have three earning members in the family and remaining 1.80 percent have four or more earning members in the family.

The status of the respondents in their family shows in all, 73.80 percent were the head of the family and rest 26.20 percent were members of the family. Financial Decisions were taken by the respondents (48.70 percent) in consultation with their spouse, 39.20 percent of the respondents took financial decision themselves and for seven per cent of the respondents financial decisions were taken by spouse.Among the total respondents,55.5 percent are living in their own house, 31.20 percent are living in either rental or leased house, seven percent live in own house with mortgage and about six percent live with their parents.

Debt Management practices

The financial liabilities position of the respondents were analyzed and presented in table.2

Table .1 Financial Liabilities of the respondents

Variables	Classification	Total Respondents(n=600)	
		No. of respondents	Percentage
Financial liabilities	Yes	369	61.50
	No	231	38.50
Purpose of loan	Education	65	17.62
	Home purchase	127	34.42
	Vehicle purchase	118	31.98
	Fulfillment of basic needs	42	11.38
	Medical expenses	17	4.61
Amount of Borrowing	Up to `25,000	182	49.32
	`25,000 to `50,000	111	30.08
	Above 50,000	76	20.60
Mode of Borrowing	Money lenders	39	10.57
	Friends and relatives	35	9.49
	Jewel loan	101	27.37
	Mortgage on property	101	27.37
	SHG loan	55	14.91
	Credit Card	25	6.78
	General purpose Credit card / Kisan Credit card	13	3.52

Source: Primary data

Table 1 focus on the financial borrowing of the respondents. Majority of the respondents (61.50 percent) borrowed money to meet their various expenditure primarily for housing, purchase of vehicle and to meet expenses relating the marriage of their children. The amount of borrowing shows that, in all, 49.32 percent of the respondents had borrowed up to `25,000, 30.08 percent of the respondents borrowed between `25,000 and Rs 50,000 and 20.60 percent of the respondents had borrowed above `50,000.

The respondents mainly borrowed through various modes which were convenient to them. The total respondents mainly borrowed by pledging jewels (27.37 percent) and mortgage on property (27.37 percent), 14.91borrowed loan from SHG, 10.57 borrowed loan from money lender, 9.49 borrowed loan from friend and relatives and rest of them get borrowed loan from bank credit cards.

The Association between the Socio-Economic Profile and Financial Liabilities

Following are the result for chi-square test between socio economic profile and demographic character of the respondents and level of advance financial literacy among the respondents belong to low income households. To find out whether there is a significant association between these two factors, the following hypothesis was framed.

H_0: There is no association between the socio-economic profile and Demographic profile of the respondents and financial liabilities incurred by them

H_1: There is association between the Socio-economic profile and Demographic profile of the respondents and financial liabilities incurred by them.

Table.2 Association between the Socio-Economic Profile of the Respondents and their Financial Liabilities

Variable	Total Respondents (600)		
	Chi-Square Value	**Significance**	**Hypothesis**
Age (in years)	1.318	0.517 ^{NS}	Accepted
Gender	0.020	0.889^{NS}	Accepted
Marital Status	8.099	0.017*	Rejected
Educational qualification	13.839	0.008**	Rejected
Occupation	0.002	0.996^{NS}	Accepted
Total Income	4.357	0.113^{NS}	Accepted
Family System	21.637	0.000**	Rejected
Household size (number of members)	19.168	0.000**	Rejected
Number of Dependents	3.314	0.346^{NS}	Accepted
Number of earning members	7.772	0.051^{NS}	Accepted
Financial decision	10.944	0.012*	Rejected
Housing Tenure	28.100	0.000**	Rejected

NS-Not significant; * Significant at 5 percent level; ** Significant at 1 percent level

Financial liabilities of the respondents with respect to age of the respondents brought out difference in association. The respondents were found to have statistically significant association between their age and their financial liabilities as indicated by insignificant value for total respondents (0.517) at five percent level. The null hypothesis was accepted implying that there is no significance association with respect age of the respondents and their financial liabilities.

The acceptation of null hypothesis for total respondents (p-0.889), indicates that there is no significant association found with the gender of the respondents and their financial liabilities. Association between marital status of the respondents and their financial liabilities was established through acceptation of the null hypothesis for total respondents (0.017) at five percent level. The null hypothesis was rejected implying that there is significance association with respect to marital status of the respondents and their financial liabilities. There is insignificant difference between married and financial liabilities among low income family (David, 2009).

Association between education attainment of the respondents and their financial liabilities was established through rejection of the null hypothesis for total respondents (p-0.008) at one percent level of significance. Existence of association between occupation of the respondents and financial liabilities for for total respondents (0.996) were proved on the acceptance of the null hypothesis. Association between total monthly income of the household and advance financial literacy knowledge for total respondents (p-0.113), the null hypothesis was accepted implying that there is no association with respect to total monthly income of the households and their financial liabilities. Association between family system and the mode of saving was tested for total respondents (23.317) were found to be significant at one percent level and null hypothesis was rejected.

For total respondents (19.168) was found to be significant at one percent level and null hypothesis was rejected. Thus, there is statically significant association between household size of all the respondents considered together have no association with their financial liabilities. Association between number of dependents of the households and their financial liabilities. The total respondents were found to have no statistically association between number of dependents and their financial liabilities as indicated by insignificant value (0.609) and for total (0.346) at five percent level of significant. In contrary, it was statistically significant at five percent level.

Association between number of earning members of the households and their financial liabilities. In case of total respondents (0.000) was found to be insignificant at five percent level and null hypothesis was accepted. With regard to association between the respondents role in financial decision making in their household and their financial liabilities, for total respondents (0.012) at five percent level of significance and null hypothesis was rejected.

Tenure of housing is another factor affecting their financial liabilities. For association between tenure of housing and their financial liabilities for total respondents (p-0.000) were found to be one percent level, the hypothesis was rejected implying that there is association with respect to tenure of housing and their financial liabilities.

Findings

- **Distribution of the Respondents based on Socio-economic and Demographic profile**

Majority of the respondents were male and were the head of households, belong to the age between 30 to 50 years, studied up to school level and employed in unorganized sector. Majority of them were married live in nuclear families with average family size of three members with an average of two earning members and live in own house. Financial decisions were taken by the head of the households and all in consultation with their spouses.

- **Debt Practices**

It is inferred that, about 55 percent of the low income households had financial liabilities and borrowed by pledging jewel and mortgage on property. According to them opinion about borrowing is never good thing.

- **Association between the Socio-Economic Profile and Financial Liabilities**

With regard to the sample respondents, educational attainment, family system, household size and tenure of housing were highly significant. Marital status and role of financial decision making were significant.

Suggestion and recommendation

- To provide Bank retail loans against informal incomes and alternate security, helping create a formal longer-term debt financing window for retail lenders.
- To appoint counselors and to give proper guidance to create financial literacy among low income group.

Conclusion

The study concluded that 55 percent of the low income households had financial liabilities and borrowed by pledging jewel and mortgage on property. Affordable Housing for all by 2022" is an immensely daunting challenge that will require the triangulation of government, international capital, and private sector efforts to even put a dent in the massive number of households that lack adequate homes. The challenge is also an exciting opportunity to inspire public-private partnerships that widely serve low-income Indians in their most fundamental needs.

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