International Journal of
DATA SCIENCE AND IOT MANAGEMENT SYSTEM
ISSN: 3068-272X www.ijdim.com Original Research Paper

A COMPERATIVE STUDY OF HOME LOAN PROVIDED BY CORPERATIVE BANK

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ABSTRACT

In the evolving landscape of financial services, home loans play a crucial role in empowering individuals to fulfill their aspirations of homeownership. Among the various financial institutions that offer housing finance, cooperative banks stand out due to their community-centric approach, regional accessibility, and borrower-friendly interest rates. However, despite their outreach and customer base, cooperative banks often face stiff competition from commercial banks and NBFCs in terms of digital transformation, loan processing speed, and customer experience. This study presents a comparative analysis of home loan products offered by different cooperative banks with a focus on interest rates, tenure flexibility, processing fees, documentation requirements, customer service, and digital service availability. Furthermore, this research integrates the software domain, especially machine learning (ML), to analyze large-scale customer datasets, understand loan approval patterns, and evaluate borrower creditworthiness. By using ML algorithms such as Logistic Regression, Decision Trees, and K-Means Clustering, we aim to develop models that can predict home loan approval likelihood and classify customer segments based on repayment behavior and risk profiles. This combination of financial analysis with ML-based data processing helps identify the strengths and inefficiencies within cooperative banking systems, ultimately suggesting pathways for digital advancement and smarter lending practices.

Received: 08-10-2025 Accepted: 17-11-2025 Published: 24-11-2025

I.INTRODUCTION

The Indian housing finance sector has witnessed substantial growth over the past two decades, driven by increasing urbanization, rising income levels, and the government's initiatives toward affordable housing. Within this dynamic market, cooperative banks continue to serve as essential financial intermediaries for middle and lower-income groups, especially in semi-urban and rural areas. These banks are often preferred for their personal touch, lower interest rates, and simplified lending procedures. However, when compared to commercial banks and housing finance companies (HFCs), cooperative banks tend to lag behind in terms of technological infrastructure, credit assessment automation, and personalized financial products. In the modern era, with digital banking and fintech innovations reshaping the financial services industry, cooperative banks are facing an urgent need to evolve. Customers now expect faster approval, digital documentation, mobile-based tracking, and AI-enabled loan suggestions. This comparative study not only examines the traditional parameters of home loans provided by various cooperative banks—such as interest rate, repayment tenure, pre-closure charges, and documentation—but also evaluates how cooperative banks can integrate machine learning technologies to optimize loan processing and improve customer service delivery.

Machine learning can enhance credit scoring, fraud detection, and loan approval automation, enabling cooperative banks to remain competitive. Furthermore, customer segmentation models based on ML can help in

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tailoring home loan products according to the specific needs of different borrower types. This study thus highlights both the traditional comparative factors of cooperative bank home loans and the modern potential of software-based intelligence in transforming cooperative banking for the digital age.

Definition:

Home Loan: A home loan, also known as a housing loan or mortgage, is a financial product provided by banks and financial institutions that enables individuals to purchase, construct, renovate, or expand residential properties. The loan is typically disbursed in lump sum or in stages (especially for under-construction properties), and is repaid over a defined tenure through Equated Monthly Installments (EMIs). The property in question is held as collateral until the full loan amount is repaid. Home loans come with varying interest rates (fixed or floating), processing fees, documentation requirements, and pre-payment terms depending on the lending institution and borrower's profile.

Cooperative Bank: A cooperative bank is a financial entity established on the principles of cooperation, mutual help, and democratic decision-making, primarily aimed at serving its members or specific communities. These banks are member-owned and operate on a smaller scale compared to commercial banks, often focused on rural, semi-urban, or community-based lending. In India, cooperative banks are regulated by both the Reserve Bank of India (RBI) and the respective State Governments, and they play a pivotal role in offering accessible and affordable credit, especially to middle- and lower-income segments. Cooperative banks have traditionally been involved in agricultural and personal loans, but many now provide housing finance as part of their services.

Loan Default: Loan default refers to a situation in which a borrower fails to meet the legal obligations of repaying a loan. In the context of home loans, defaulting can lead to legal recovery actions by the bank, including the seizure and auction of the mortgaged property. Cooperative banks, which often cater to economically vulnerable segments, are more exposed to loan default risk, making it imperative for them to adopt modern credit risk assessment tools.

Credit Risk: Credit risk is the risk of financial loss resulting from a borrower's failure to repay a loan or meet contractual obligations. It is one of the most critical risks faced by financial institutions, especially banks. In home loans, assessing credit risk involves evaluating a borrower's repayment capacity, credit history, job stability, and existing liabilities. With limited data infrastructure, cooperative banks struggle with accurate credit risk evaluation, highlighting the need for data-driven models.

Machine Learning (ML): Machine Learning (ML) is a branch of Artificial Intelligence (AI) that allows computers to learn from historical data and make predictions or decisions without being explicitly programmed. In banking and finance, ML is widely used for fraud detection, credit scoring, loan approval automation, and customer behavior analysis. ML algorithms such as Logistic Regression, Decision Trees, and Support Vector Machines (SVM) can be used to analyze borrower data and predict the probability of loan default, eligibility, and repayment patterns. ML models are particularly helpful in automating and standardizing the home loan approval process.

Customer Segmentation: Customer segmentation is the process of dividing a customer base into distinct groups based on common characteristics such as income, occupation, repayment history, and credit behavior. In the context of cooperative banks, segmentation helps in tailoring home loan products, setting appropriate interest rates, and applying differentiated risk management strategies. Techniques such as K-Means Clustering and Hierarchical Clustering are used in ML to group borrowers into risk categories or target segments for personalized offers.

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Credit Scoring Models: Credit scoring models use statistical and machine learning methods to assign a numerical score to borrowers, indicating their creditworthiness. These models consider variables like past defaults, current EMIs, credit card usage, income stability, and employment type. By implementing automated credit scoring, cooperative banks can make faster and more accurate decisions, even in regions where traditional documentation is unavailable or incomplete.

Digital Lending: Digital lending refers to the use of digital platforms and automation technologies to facilitate the loan lifecycle—from application and document submission to underwriting, disbursement, and repayment tracking. Many cooperative banks are still in the early stages of digital adoption, relying heavily on paper-based processes. However, the integration of mobile apps, AI chatbots, and e-KYC (electronic Know Your Customer) systems can enhance customer experience and operational efficiency in home loan services.

Loan-to-Value (LTV) Ratio: The Loan-to-Value (LTV) ratio is a financial term used by lenders to express the ratio of a loan to the value of the asset purchased. In home loans, a lower LTV ratio indicates higher equity by the borrower and usually translates to lower credit risk. Cooperative banks often offer LTV ratios based on RBI guidelines, but without automated appraisal systems, they may struggle to ensure accurate property valuations.

Research Problem:

While cooperative banks play a crucial role in the housing finance ecosystem, they often lack the technological capability and decision intelligence needed to compete in a digital banking environment. The traditional loan approval processes in cooperative banks are manual, document-intensive, and time-consuming, leading to customer dissatisfaction and higher operational costs. Additionally, loan officers rely heavily on subjective judgment, which can result in inconsistent credit decisions. In contrast, commercial banks and fintech-based lenders have adopted ML-driven systems for credit scoring and real-time risk assessment.

The research problem, therefore, lies in understanding:

"How can cooperative banks enhance their home loan services through comparative analysis and the integration of machine learning techniques to improve credit risk evaluation, loan approval efficiency, and customer targeting?"

This study addresses the gap between conventional banking processes and modern intelligent systems, aiming to bridge this divide by proposing actionable strategies through both financial insights and software implementation.

RESEARCH METHODOLOGY

The research methodology applied in this study is a combination of descriptive, comparative, and analytical approaches, utilizing both primary and secondary data. The primary data was collected through structured questionnaires and interviews conducted with loan officers, bank managers, and borrowers of selected cooperative banks including Saraswat Bank, Cosmos Bank, and TJSB Bank. The secondary data was sourced from official bank websites, annual reports, Reserve Bank of India (RBI) publications, National Housing Bank (NHB) bulletins, and financial databases.

The sample for the study includes data from over 500 home loan borrowers across five cooperative banks in Maharashtra, Karnataka, and Gujarat. Quantitative data regarding interest rates, tenure, EMI structures, and processing timelines were collected, normalized, and analyzed using Excel and SPSS tools.

To incorporate the software and machine learning domain, customer data such as income, occupation, credit score, repayment history, and loan amount was processed using Python. ML algorithms like Logistic Regression and Decision Trees were implemented to predict loan approval probabilities, while K-Means Clustering was applied for borrower segmentation. The model outputs were validated using accuracy scores, ROC-AUC curves, and

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confusion matrices. The integration of ML aimed to simulate how cooperative banks could use data science to enhance decision-making and credit risk analysis.

II.LITERATURE REVIEW

Multiple researchers have explored the landscape of home loans, cooperative banking, and fintech integration. According to Rao and Sharma (2018), cooperative banks in India have played a key role in housing finance, especially for low-income borrowers. However, their studies highlight systemic inefficiencies in credit appraisal and risk assessment processes. Sharma and Singh (2020) compared public and cooperative bank home loan products and emphasized the need for modernization and digital transformation in cooperative institutions.

On the software side, recent literature has focused on the growing role of machine learning in banking. Mishra et al. (2021) demonstrated how ML models like Logistic Regression and Decision Trees can improve loan default prediction. A study by Nair et al. (2020) showed the effectiveness of unsupervised learning for customer segmentation in banks, allowing for better targeting of loan products. RBI's report on "Credit Analytics in Indian Banking" (2022) stressed the importance of AI/ML adoption for improved loan underwriting and fraud detection.

Fintech integration in cooperative banks has also been examined by Gupta (2021), who argues that community banks must embrace ML for long-term sustainability. Global examples from Europe and Southeast Asia demonstrate how small banks are integrating digital lending platforms using open APIs and AI-based credit scoring. Despite growing interest, literature shows a lack of specific studies combining comparative financial analysis of home loans with real ML-based implementation for cooperative banks—a gap this research aims to address.

III.DATA ANALYSIS AND INTERPRETATION

The data collected from five cooperative banks revealed that while all institutions offer relatively competitive interest rates (ranging between 8% to 10%), there is significant variance in loan processing time, documentation requirements, and digitization levels. For example, Saraswat Bank offered the fastest loan processing (average of 7 days), while Cosmos Bank had more customer-friendly repayment flexibility. However, smaller cooperative banks exhibited slower disbursement timelines and limited online services, causing customer dissatisfaction among tech-savvy borrowers.

On the ML side, after training the loan approval model on borrower data (including income, age, credit score, and occupation), the Logistic Regression model achieved an accuracy of 84%, while Decision Trees reached 89%. These models helped identify high-risk applicants based on repayment history and credit behavior. Cluster analysis segmented borrowers into three primary groups—low-risk salaried professionals, medium-risk self-employed borrowers, and high-risk low-income applicants. The segmentation insights indicated that cooperative banks could offer customized loan terms to different borrower types, thereby reducing NPAs (Non-Performing Assets).

Interpretation of the results suggests that machine learning integration can significantly improve the operational efficiency of cooperative banks, enhance decision accuracy, and enable data-driven risk profiling. This can eventually lead to better customer retention, faster loan approvals, and smarter financial products.

IV.FINDINGS

- Cooperative banks offer competitive home loan interest rates but lack digital automation.
- Loan processing time and document handling remain major bottlenecks in cooperative banking.

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- ML models like Logistic Regression and Decision Trees can accurately predict home loan approval outcomes.
- Customer segmentation using clustering techniques allows for personalized loan offers and risk-based pricing.
- Borrowers prefer banks with mobile apps, e-KYC, and instant loan tracking—features that most cooperative banks lack.
- Integration of ML can reduce human bias in credit evaluation and enhance consistency in loan decisions.
- Cooperative banks with partially digitized systems showed better customer satisfaction and lower turnaround time.
- Borrowers with higher credit scores and stable incomes had significantly higher approval chances, as validated by ML models.
- A hybrid approach combining financial policy improvements and intelligent automation offers the best strategy for cooperative banking modernization.

V.CONCLUSION

This study concludes that while cooperative banks continue to be essential for providing home loans to underserved segments, their existing systems require urgent modernization to meet current expectations and competition. The comparative analysis reveals both strengths (low interest rates, community focus) and weaknesses (manual processing, limited digital infrastructure) across cooperative banks. The integration of machine learning algorithms in the credit evaluation process has shown high potential in enhancing decision accuracy, reducing NPAs, and improving borrower targeting.

By adopting intelligent software systems for loan processing, customer segmentation, and approval prediction, cooperative banks can transform their services, achieve greater operational efficiency, and offer smarter home loan products. The research highlights the path forward: a digitally-enabled cooperative banking sector that preserves its traditional values while embracing data science-driven innovation.

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