

Examine the Determinants of Mortgage Loan Default in Commercial Banks Operated in the City of Panadura – Sri Lanka

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Abstract

Mortgage default risk is the major problem of most of the banks. Financial institutions are interested in the identify the determinants of loan default. Controlling loan default is essential for both the performance of bank and financial environment of economy. This study focuses on the identify the determinants of mortgage loan default. A qualitative analysis was conducted to examines the customer characteristics and bank specific determinants of the mortgage loan default. Ten mortgage loan default debtors and five credit officers in banking sector have been selected for the study. In depth interviews were used in data collection. Ten reasons for unable to repay the loan have been explored from the stories of mortgage loan default debtors. The identified borrower specific determinants and bank specific determinants were compared and contrasted with the existing literature. It was found that income, business failure, health condition, unforeseen contingencies, credit history, family obligations as customer specific determinants of mortgage loan default. Credit monitoring, value of collateral, ownership type, poor credit monitoring found as bank specific determinants of mortgage loan default. But there is a conflict between interest and default of mortgage loan. Findings implies that the interest rate is not affected to the default of mortgage loan in Sri Lanka. A further research is needed to study measures to control the default/delinquency in banking sector.

Keywords: Mortgage Loan Default, Customer Specific Determinants, Bank Specific Determinants