

# Factors Affecting the Decision on Bank Loan: A Case of Individual Customers at Agribank O Mon, Can Tho City, Vietnam

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## ABSTRACT

The study aims to find out factors affecting the decision to continue bank loans of individual customers at Agribank O Mon, Can Tho City. The research data were gathered from 161 individual customers who have loans at Agribank O Mon. The study has identified seven impacting factors to the decision on bank loans of individual customers by applying exploratory factor analysis and multivariate linear regression. The descending influence level of each factor is as follows: customer trust, assurance, bank brand, tangibility, responsiveness, understanding, and accessibility.

**KEYWORDS:** bank loan, decision, individual customer

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## 1. PROBLEM STATEMENT

In recent years, credit growth has been a challenge for banks in Vietnam. The credit services for individual customers bring a great source of capital for the bank. From the time of beginning, Agribank O Mon has considered individual customers as target customers in the development orientation of credit products. To improve credit services, especially bank loans, Agribank O Mon has diversified products, improved loan procedures, offered promotions, lowered interest rates, etc. Therefore, the bank encouraged more customers to take out bank loans. Customers are considered to be loyal when they tend to buy multiple products/services of a certain brand and repeat their purchases (Chaudhuri, 1999). Loyalty is a commitment to re-purchase or revisit a favorite product/service in the future, thereby leading to a repetition of the same brand or re-ordering, even though contextual influences and marketing efforts are likely to cause behavioral transformation (Oliver, 1999). To understand the reasons why individual customers continue to borrow from Agribank O Mon, this study is conducted to identify impacting factors and the impact level of each factor on their loan decisions.

## 2. LITERATURE REVIEW AND RESEARCH HYPOTHESES

### 2.1. Literature review

A loan decision is a process that takes place from the time the borrower identifies a need, then searches for internal or external information to make a loan decision, or to repeat a loan decision. In which, the loan decision is considered the final stage of the loan decision-making process (Nhut and

Tung, 2013). According to Ky and Hung (2007), customer loyalty is a combination of customer preferences (interest, attitudes, expectations, etc.) and their intentions (to continue using, to purchase, to introduce to others, etc.). The fact that customers continue to borrow is of great significance for a bank, affirming their loyalty to the bank. Three theories applied as the basis for the study are (1) Theory of Reasoned Action – TRA (Fishbein and Ajzen, 1975); (2) Theory of planned behavior (Ajzen, 1991), and (3) Theory of consumer purchasing behavior (Kotler and Armstrong, 2012).

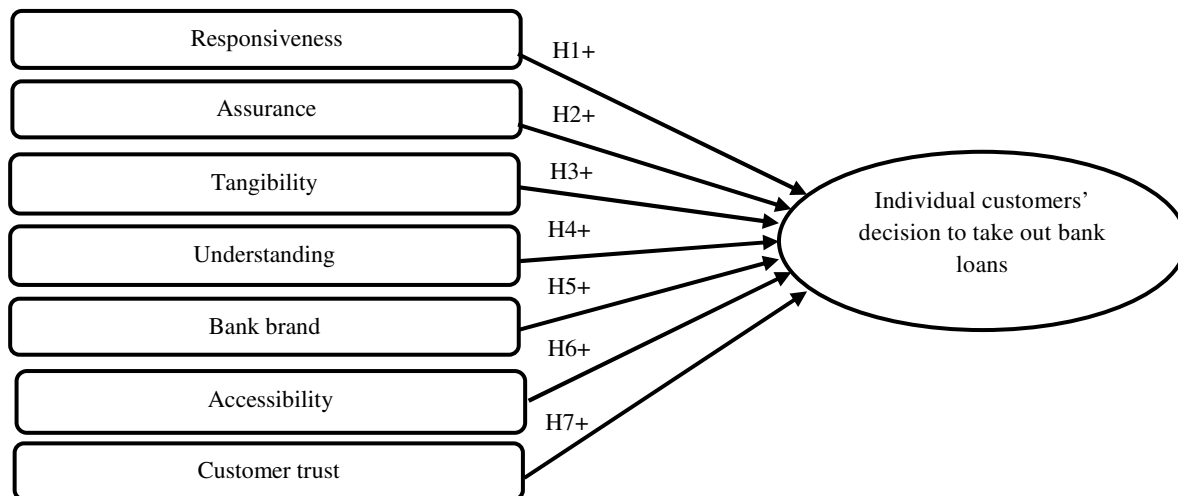
As presented by Devlin (2002), factors affecting the decision to choose credit institutions of individual customers are expert advice, interest rates, bank brand, service quality, self-introduction, and product range. Rehman and Ahmed (2008) pointed out that elements influencing individual customers' banking choices are customer service, convenience, banking facilities, and business environment. According to Frangos et al. (2012), impacting factors to the loan decision of individual customers are lending rates, service quality, customer satisfaction, demographic factors, and loan policies. Ngai and Tai (2019) have proven that bank brand, loan procedures, lending rates, and service staff affect the loan decision of individual customers.

### 2.2. Proposed research model

Based on the above literature review, the group discussion method (qualitative research) is used to determine suitable scales and research hypotheses for the model. Accordingly,

H1: Responsiveness positively impacts individual customers' decisions to take out bank loans. H2: Assurance has a positive influence on individual customers' decisions to take out bank loans. H3: Tangibility beneficially affects individual customers' decisions to borrow from the bank. H4: Understanding positively impacts individual customers' decisions on bank

loans. H5: The bank brand positively influences individual customers' decisions to take loans. H6: Accessibility has a beneficial impact on individual customers' decisions on bank loans. H7: Customer trust has a beneficial relationship with individual customers' decisions on bank loans. Thus, the research model is as follows:



**Table 1: Interpretation of observed variables in the research model**

Factor	Observed variables	Sign	Reference resources
Responsiveness	The bank fully satisfies customer needs to continue borrowing money.	RES1	Frangos et al. (2012), Rehman and Ahmed (2008), Nhutand Oanh (2014)
	Loan procedures are simple and fast	RES2	
	The loan recipients are diverse.	RES3	
	Referential lending rates.	RES4	
	Credit service fees are appropriate.	RES5	
	Customer support services are good (message notification of interest and principal maturity date)	RES6	
Accessibility	The bank office location is convenient and easy to find.	ACC1	Rehman and Ahmed (2008), Cuong (2015)
	Loan procedures are quick and simple.	ACC2	
	Continued loan records are simpler than the first loan procedure.	ACC3	
	The credit staff is friendly, enthusiastic, and close to customers.	ACC4	
Customer trust	Customers trust the bank.	CT1	Cuong (2015), Gioi and Huy (2012), Nhut and Oanh (2014)
	The bank always keeps customer information confidential.	CT2	
	The bank always offers loans to customers as committed.	CT3	
	The credit staff always deals with customer inquiries satisfactorily.	CT4	
	Loan records are easy to understand.	CT5	
Understanding	The credit staff listens and supports customers to continue borrowing.	UND1	Gioi and Huy (2012), Tuu and Linh (2014)
	The credit staff offers beneficial policies to customers.	UND2	
	The credit staff always concerns about customers' problems.	UND3	
	The credit staff always offers loans that are suitable for customers' affordability.	UND4	
Tangibility	Headquarters of the bank branches have spacious space and convenient locations.	TAN1	Devlin (2002), Rehman and Ahmed (2008), Gioi and Huy (2012)
	Staff uniforms are polite, neat, and professional.	TAN2	
	Multiple lending and debt collection counters.	TAN3	
	Good facilities (television, wifi, newspapers, drinks, etc.)	TAN4	
	The bank's transaction network is wide and convenient.	TAN5	
	The parking lot is large and convenient.	TAN6	
Assurance	The credit staff is punctual.	ASS1	Ho (2009), Tram, (2015)
	Continued loan procedures are quick as committed.	ASS2	
	Specialized credit officers give helpful and easy-to-understand advice.	ASS3	
	The credit staff builds customer trust.	ASS4	
Bank brand	The bank brand and image are easy to recognize.	BB1	Devlin (2002), Nhut and Oanh (2014)
	The credit staff has a professional working style.	BB2	
	The credit staff communicates politely and courteously.	BB3	
	The bank offers bank loans to support the agricultural field, farmers, and rural areas.	BB4	

The decision on bank loans	Agribank is suitable for me to take out bank loans.	DEC1	Nhut ad Tung (2013); Giau and My (2017)
	I always trust Agribank to borrow.	DEC2	
	I will recommend Agribank to my relatives and friends if they have a loan demand.	DEC3	
	If I have a loan demand, Agribank will be my first choice.	DEC4	

Source: Authors' proposal, 2020

### 3. RESEARCH METHODOLOGY

#### 3.1. Data collection method

The study applied convenient sampling to survey 161 individual customers who have borrowed at Agribank O Mon. In the exploratory factor analysis (EFA), the ratio of observations and measurement variables is 5:1 which means a measurement variable requires a minimum of 5 observations (Hair et al., 1998). According to Tabachnick and Fidell (2007),  $N \geq 50 + 5 * m$  (where m is the number of independent variables) is the calculation to determine the sample size in linear regression. As a result, the initial sample size (161 observations) ensures the reliability of the hypothesis test.

#### 3.2. Analytical method

The reliability test, exploratory factor analysis (EFA), and multivariate regression analysis are used to determine impact factors and the influence level of each factor on individual customers' decision to borrow from Agribank O Mon. The Cronbach's alpha tests the internal correlation among observed variables. The exploratory factor analysis (EFA) evaluates the convergent and discriminant validity of variables. Finally, the multivariate linear regression is used to test research hypotheses.

### 4. RESEARCH RESULTS AND DISCUSSIONS

#### 4.1. Test the reliability of scales

The reliability test for 37 observed variables in 8 factors shows that Cronbach's alpha values are from 0.797 to 0.935, so the scale is accepted (Peterson, 1994). Among 37 variables, there is no corrected item-total correlation value that is less than 0.3. This says that 37 observed variables are consistent with the model. Therefore, 37 observed variables can be used in the next exploratory factor analysis.

**Table 2: Reliability test result**

Factor	Number of observed variables	Min item-total correlation	Cronbach's alpha
Responsiveness	6	0.621	0.935
Assurance	4	0.714	0.903
Tangibility	6	0.657	0.890
Understanding	4	0.743	0.895
Bank brand	4	0.660	0.882
Accessibility	4	0.683	0.865
Customer trust	5	0.525	0.793
The decision on bank loans	4	0.615	0.832

Source: Survey data, 2020

#### 4.2. Exploratory factor analysis (EFA)

The EFA step for independent scales achieved the following results: (1)  $KMO = 0.886$  ( $0.5 < KMO = 0.886 < 1$ ) and Bartlett's test on the correlation among variables gets  $Sig. = 0.000 < 0.05$  meaning that the research data is suitable. (2) The cumulative variance reaches 73.128%, explaining 73.128% of the data's variability. (3) The factor loading values are all greater than 0.5. Hence, these variables are satisfactory for further tests (Hair et al., 2006).

**Table 3: Factors formed from the exploratory factor analysis (EFA)**

Sign	Observed variable	Factor
F1	6 variables: RES1, RES5, RES3, RES6, RES4, RES2	Responsiveness
F2	4 variables: ASS2, ASS3, ASS4, ASS1	Assurance
F3	6 variables: TAN1, TAN3, TAN5, TAN2, TAN4, TAN6	Tangibility
F4	4 variables: UND1, UND4, UND3, UND2	Understanding
F5	4 variables: BB2, BB4, BB3, BB1	Bank brand
F6	4 variables: ACC3, ACC4, ACC2, ACC1	Accessibility
F7	5 variables: CT2, CT1, CT3, CT5, CT4	Customer trust

Source: Survey data, 2020

Similarly, the exploratory factor analysis (EFA) for the dependent variable gives good results. The factor loading coefficients of the 4 observed variables are greater than 0.5 which is satisfactory (Hair et al., 2006).  $KMO$  is 0.812 and Bartlett's test on the correlation among variables has  $Sig. = 0.000 < 0.05$  mean the data is appropriate. The total variance explained reaches 66,706%  $> 50\%$ , explaining 66,706% of the variability in customers' borrowing decision.

#### 4.3. Multivariate linear regression

In this study, multivariate linear regression is used to determine factors affecting the decision to borrow of individual customers at Agribank O Mon, Can Tho City. The analytical result is in table 4.

**Table 4: Multivariate linear regression result**

Factor	Standardized coefficients	Sig.	Variance inflation factor (VIF)	Hypothesis
Responsiveness	0.279	0.000	1.000	H1: accepted
Assurance	0.354	0.000	1.000	H2: accepted
Tangibility	0.315	0.000	1.000	H3: accepted
Understanding	0.249	0.000	1.000	H4: accepted
Bank brand	0.328	0.000	1.000	H5: accepted
Accessibility	0.151	0.002	1.000	H6: accepted
Customer trust	0.372	0.000	1.000	H7: accepted
Adjusted R <sup>2</sup>				0.616
Durbin-Watson stat				2.048
Sig.F				0.000

Source: Survey data, 2020

The above result shows that the significance level of the model Sig. = 0.000 < 0.01 which means the model is statistically significant with high consistency. The Durbin Watson = 2.048 (between 1 and 3) proves that there is no autocorrelation (Nam, 2008). Besides, VIF values of variables are much smaller than 4, so there does not exist multicollinearity (Trong and Ngoc, 2008). The adjusted R<sup>2</sup> is equal to 0.616 which means the model explains 61.6% of the impact level of factors included in the model. Standardized coefficients show the influence of independent factors on the dependent one, the higher the value, the greater the impact. To most customers, one of their considerations when taking out a bank loan is diverse types of loan service. The bank's assurance reflects in responsiveness, simple transactions, long-standing commitments, and the trust from staff. The research results are similar to researches by Frangos et al. (2012), Ngai and Tai (2019). The study has demonstrated that the credit staff's understanding of customers' difficulties and their ability to meet customers' needs are factors that customers pay attention to. The bank's security and responsiveness level, honesty, accuracy, loan commitments, stable debt capital, and satisfactory consulting services are elements that motivate customers to decide on bank loans.

## 5. CONCLUSION

To sum up, the study has indicated that seven factors included in the model all affect the individual customers' decision on bank loans with a significance level of 1%. The descending order of influence levels is as follows: customer trust, assurance, bank brand, tangibility, responsiveness, understanding, and accessibility. The research results are a helpful scientific basis for Agribank's Board of Directors to refer and promote the needs of customers on bank loans, thereby improving individual customer loyalty to Agribank O Mon, Can Tho City.

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