# FACTORS AFFECTING THE CONSUMER LOAN DECISION OF INDIVIDUAL CUSTOMERS IN CAN THO CITY

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***Abstract:*** *This study aims to analyze factors affecting the consumer loan decision of individual customers in Can Tho City. The research data was collected from 350 customers conducting transactions at various banks in Can Tho city. The reliability of the research was tested using Cronbach's alpha coefficient, and exploratory factor analysis and multiple regression were employed to identify factors influencing individual customers' decisions to apply for consumer loans. Estimated model results showed that factors such as bank brand, bank staff, service quality, and loan interest rates positively correlate with individual customers' decisions to apply for consumer loans in Can Tho City. Among these factors, the bank's brand was the most influential factor in individual customers' decisions to apply for consumer loans.*

***Keywords***: *Factor, decision, consumer loan, individual customers, Can Tho City.*

## I. Introduction

During the recent period, the overall economy of Vietnam and specifically Can Tho city has faced specific difficulties following the outbreak of the Covid-19 pandemic. Based on economic and social developments nationwide, both central and local sectors have joined hands to contribute to the country's dual goals of fighting the pandemic and promoting socio-economic development. Among these sectors, the banking industry has significantly contributed to the country's development. Through banking activities, capital from various sources is accumulated and redistributed to meet society's needs, thereby facilitating more significant socio-economic development. The primary function of banks is credit, and through credit activities, idle funds are allocated to fulfil the capital requirements of economic entities in production and business operations within society, thereby enhancing the overall balance of production and business activities. In terms of credit, individual

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customers have much lower transaction volumes than corporate customers. However, individual customers account for a substantial proportion of transaction quantity. Recognizing the crucial role of credit for individual customers as a product that generates significant income for banks, formal credit institutions have been striving to improve the quality of their credit products and services to attract customers, thus enhancing their competitiveness with other banks. Currently, consumer loans primarily target individual customers and constitute a significant portion of banks' product offerings. The challenge lies in how banks can attract individual customers to choose their institution for borrowing, specifically for personal consumption needs. Which factors influence the decision-making process of individual customers in Can Tho City when it comes to consumer loans? Therefore, this study, "Factors Influencing the Decision-Making Process of Individual Customers Regarding Consumer Loans in Can Tho City," aims to contribute to consumer lending growth in Can Tho City, thereby fostering better local socio-economic development.

## II. Literature Review

### 2.1. Theory of Consumer Lending and Behavior

According to Kieu (2014), consumer lending aims to meet the expenditure and household convenience needs to improve people's living standards. Borrowers are individuals with stable but not high incomes, primarily consisting of salaried employees with stable jobs, and the number of customers is considerable. The decision-making process of individual borrowers is influenced by various factors that lead to decision-making behaviour.

The Theory of Planned Behavior - TPB (Ajzen, 1991), developed from the Theory of Reasoned Action - TRA (Ajzen & Fishbein, 1975), argues that behaviour can be predicted or explained by the intentions (motivations) to perform that behaviour. Intentions are inferred from factors and motivations that impact behaviour and are defined as individual efforts to engage in that behaviour (Ajzen, 1991). The TPB states that human behaviour intentions are predicted by "attitudes toward the behaviour, subjective norms, and perceived behavioural control". These intentions and the perception of behavioural control account for significant variations in actual behaviour. Attitudes, subjective norms, and perceived behavioural control are primarily associated with beliefs about behaviour, norms, and control over behaviour. According to Ajzen & Fishbein (2005), various socio-demographic factors such as society, culture, personality, and external circumstances influence these beliefs.

### 2.2. Relevant Studies

Regarding the issues of personal loans and consumer lending, several experimental studies have been conducted both domestically and internationally to identify the factors influencing customers' loan decisions. Some relevant studies conducted in the past can be summarized as follows: Rehman et al. (2008) examined the bank selection process of customers in Pakistan, which was influenced by several decision-making factors. These factors included customer service, convenience, interest rates, internal bank environment and image, online transaction systems, and transaction environment. The analysis indicated that customer service, convenience, online transaction systems,

and transaction environment influenced customers' bank selection. Additionally, Diep and Huy (2014) identified the factors influencing the bank selection of individual customers, which included product benefits, convenience, tangible facilities, bank staff, bank reputation, the influence of others, and marketing.

Furthermore, Nam and Van (2015) showed that product benefits had the most substantial impact on bank selection, followed by bank staff, bank reputation, convenience, tangible facilities, the influence of others, and finally, marketing. Ngai and Tai (2019) conducted a study on the factors influencing the loan decisions of individual customers at BIDV Trà Vinh Bank. The analysis results suggested four initial factors that statistically significantly affected customers' loan decisions: bank brand, loan procedures, interest rates, and service staff. According to Chau et al. (2020), factors influencing the loan decisions of individual customers at the Investment and Development Joint Stock Commercial Bank - Hau Giang Branch, in descending order, included service quality, loan interest costs, bank brand, loan procedures, and convenience. At the same time, Chuyen (2020) analyzed the factors influencing customers' consumer loan decisions at Agribank Da Nang. The

author's research model was based on the theoretical foundation of Ajzen and Fishbein (1975). Results indicated that all six factors, including loan conditions, interest rates, procedural processes, brand and reputation, service capabilities, and customer care policies, positively influenced customers' consumer loan decisions at Agribank Da Nang. Hai and Hoang (2021) conducted a study to identify the factors influencing the loan decisions of individual customers at the Joint Stock Commercial Bank for Industry and Trade of Vietnam - West Saigon Branch. Influencing factors included pricing policies, brand, tangible facilities, customer care policies, and Internet banking systems.

### III. Research Methodology

### 3.1. Research Model

Based on the theoretical foundations of behaviour by Ajzen and Fishbein (2005) and the theory of planned behaviour (TPB) by Ajzen (1991), this study also drew upon the findings of Ngai and Tai (2019), Chau et al. (2020), Chuyen (2020), and Hai and Hoang (2021). The proposed research model consists of six factors that have the potential to influence the consumer loan decisions of individual customers in the area of Can Tho City. These factors are as follows:
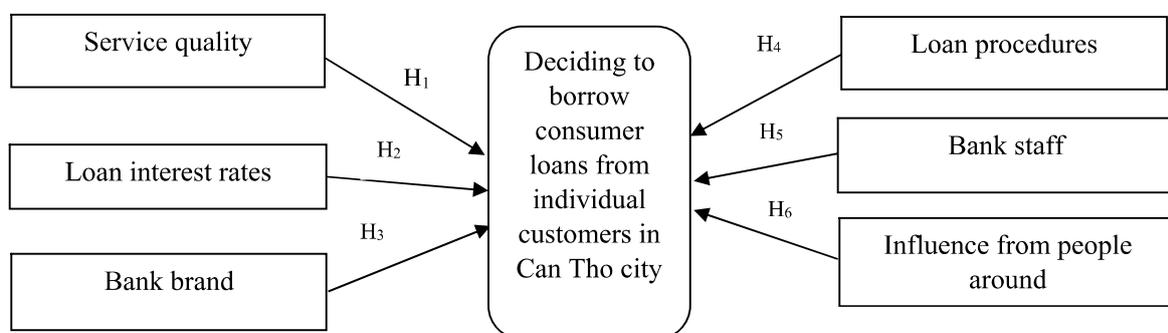


*Figure 1: Proposed theoretical research model*

*Source: Compiled by the author, 2023*

### 3.2. Analysis Method

The multiple linear regression method was employed to examine the influence aim of this study is to analyze factors affecting the consumer loan decision of individual customers in Can Tho City. The research data was collected from 350 customers conducting transactions at various banks in Can Tho city. The reliability of the research was tested using Cronbach's alpha coefficient, and exploratory factor analysis and multiple regression were employed to identify factors influencing individual customers' decisions to apply for consumer loans. Estimated model results showed that factors such as bank brand, bank staff, service quality, and loan interest rates positively correlate with individual customers' decisions to apply for consumer loans in Can Tho city. Among these factors, the bank's brand was the most influential factor in individual customers' decisions to apply for consumer loans. One of factors on consumer loan decisions of individual customers in Can Tho City. In this case, the research model is presented in equation form as follows:

$$Y = ß_0 + ß_1F1 + ß_2F2 + \ldots + ß_kFk \quad (1)$$

Where: Y is the dependent variable representing consumer loan decisions, Y is measured by the average value of observed variables of the "Consumer Loan Decision" factor.

F1, F2, ..., Fk are independent variables derived from the extracted factors (k corresponds to the number of elements).

$ß_0$ represents the estimated value of Y when all k independent variables (F) have a value of 0.

$ß_1$, $ß_2$,..., $ß_k$ are the regression coefficients.

### 3.3. Research Data

For studies using the EFA analysis method, the minimum sample size is recommended to be 50, with a ratio of observations to variables of 5:1 (Tho, 2011; Hair et al., 2006), meaning that each variable should have at least 5 observations. Therefore, with 22 observed variables (comprising 18 observed variables belonging to 6 factors of the independent variable group and 4 observational variables belonging to the factor of the dependent variable) constructed in the questionnaire regarding the scale of consumer loan decision-making by individual customers, this study needs to be conducted with a minimum sample size of 22x5=110 observations. However, to ensure representativeness, this study surveyed 350 consumer loan customers at banks with a large number of transactions, as follows: Ninh Kieu District (100 observations), Binh Thuy District (50 observations), Cai Rang District (50 observations), O Mon District (50 observations), Thot Not District (50 observations), and Phong Dien District (50 observations). The convenience sampling method was used to directly interview customers who came to conduct transactions at the selected banks through a pre-designed questionnaire.

## IV. Research Results

### 4.1. Exploratory Factor Analysis Results

After conducting the measurement scale validation using Cronbach's alpha coefficient, out of the initially proposed

18 observed variables in the independent variable group, 17 observed variables met the standard (The variable LOAIR3 was excluded due to its Cronbach's Alpha after exclusion being higher than the Cronbach's Alpha coefficient of the Loan Interest Rate scale). The results of factor rotation for the 17 standardized observed variables are presented in Table 1 below:

*Table 1: Factor Rotation Results*

| Observed variables | Factors | | | | | |
|---|---|---|---|---|---|---|
| | F1 | F2 | F3 | F4 | F5 | F6 |
| LOAP1 | 0.867 | | | | | |
| LOAP2 | 0.856 | | | | | |
| LOAP3 | 0.854 | | | | | |
| BANB1 | | 0.907 | | | | |
| BANB2 | | 0.865 | | | | |
| BANB3 | | 0.843 | | | | |
| BANS1 | | | 0.834 | | | |
| BANS2 | | | 0.829 | | | |
| BANS3 | | | 0.804 | | | |
| INFPA1 | | | | 0.850 | | |
| INFPA2 | | | | 0.807 | | |
| INFPA3 | | | | 0.785 | | |
| LOAIR1 | | | | | 0.917 | |
| LOAIR2 | | | | | 0.905 | |
| SERQ1 | | | | | | 0.830 |
| SERQ2 | | | | | | 0.756 |
| SERQ3 | | | | | | 0.698 |
| Eigenvalue | 1.768 | | | | | |
| Cumulative (%) | 77.80 | | | | | |
| KMO | 0.728 | | | | | |
| Sig. Bartlett's Test of Sphericity | 0.000 | | | | | |
| N | 350 | | | | | |
| | | | | | | |

*Source: Data analysis based on a survey of 350 customers in Can Tho, 2023.*

The factor rotation results satisfy the condition that all factor loadings exceed 0.5. The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy is 0.728, more significant than 0.5. The significance value (Sig.) of Bartlett's test is 0.000, which is less than 0.005, indicating the factor structure is substantial. The total variance extracted is 77.80%, which exceeds the minimum threshold of 50%. Moreover, the eigenvalue criterion shows that the sixth factor (F1 - F6) can be retained as its eigenvalue (1.768) is greater than 1.

Based on the factor rotation results in Table 1, it can be observed that six new factors have emerged, and the total number of observed variables is 17.

Furthermore, an exploratory factor analysis on the dependent variable (Consumer Loan Decision) was also conducted. The analysis results indicated that all four observed variables: CLD1, CLD2, CLD3, and CLD4, converged into a single factor, and the test coefficients met the factor rotation requirements.

## 4.2. Multiple Linear Regression Results

After extracting the factors (F1 - F6) and the Consumer Loan Decision factor (Y), the independent variables (F1 - F6) were included in the regression model using the Enter method. The estimated results of the model are presented in Table 2 below:

*Table 2: Regression Model Estimation Results*

| Variables | B | Beta | Sig. | VIF |
|---|---|---|---|---|
| F1 (Loan procedures) | 0.125 | 0.341 | 0.103 | 1.098 |
| F2 (Bank brand) | 0.300 | 0.515 | 0.000 | 1.096 |
| F3 (Bank staff) | 0.107 | 0.142 | 0.004 | 1.030 |
| F4 (Influence from people around) | 0.021 | 0.054 | 0.207 | 1.340 |
| F5 (Loan interest rates) | 0.064 | 0.113 | 0.005 | 1.021 |
| F6 (Service quality) | 0.104 | 0.176 | 0.000 | 1.046 |
| Constant | 1.344 | 0.000 | 0.000 | |
| Sig. F | | 0.000 | | |
| Adjusted R Square (%) | | 0.689 | | |
| N | | 350 | | |

*Source: Data analysis based on a survey of 350 individual customers in Can Tho, 2023.*

To ensure the appropriateness of the model used, the author checked for violations during the regression analysis. For example, the multicollinearity phenomenon was examined through the Variance Inflation Factor (VIF). The VIF values for the independent variables in Table 2 range from 1.021 to 1.340, all below 2 (the necessary condition is VIF < 10). Simultaneously, the Durbin-Watson value of the model is 1.703, falling within the safe range ($1 < d = 1.703 < 3$), indicating that the model does not exhibit autocorrelation. Additionally, the model has a significant level of sig. = 0.000, it is smaller than the significance level $\alpha$ of 1%, indicating that the model is statistically significant at the 1% level. Adjusted R Square is 0.689, showing that the independent variables explain 68.90% of the variation in consumer loan decisions of individual customers in Can Tho City.

The estimation results in Table 2 show that four of the six variables included in the research model have a statistically significant impact on the consumer loan decisions of individual customers in Can Tho City. These variables include F2 (Bank brand), F3 (Bank staff), F5 (Loan interest rates), and F6 (Service quality). These variables have a significant impact at the 1% level (since the significance level, Sig., is less than $\alpha = 0.01$). Additionally, these variables have a positive impact on consumer loan decisions. These research findings are consistent with the hypotheses and similar to the results of previous studies, such as Ngai and Tai (2019), Chau and colleagues (2020), and Hai and Hoang (2021). These studies also showed that bank brand positively influences individual customers' consumer loan decisions.

Moreover, the bank's service quality has been demonstrated to have a positive correlation with consumer loan decisions (Chau et al., 2020). Furthermore, other studies have found that loan interest rates

and bank staff positively correlate with consumer loan decisions (Ngai and Tai, 2019). On the other hand, the variable "Loan Procedures" has a significance level (Sig.) of 0.101, which is greater than α = 10%. Similarly, the variable "Influence from people around" has a significance level of 0.209, greater than α = 10%. Therefore, these two variables are not statistically significant in this research model.

## V. Conclusion

The multiple regression model results show that customers' consumer loan decisions in Can Tho City are influenced by factors such as Bank Brand, Bank Staff, Service Quality, and Loan Interest Rate. Based on these findings, policy implications are proposed to enhance consumer lending operations for individual customers in Can Tho City.

*Firstly,* a bank's brand is an advantageous factor in attracting customers. A bank with extensive experience in lending and other supportive services will establish trust and credibility with numerous customers. Through the bank's brand, many people recognize it as an institution with strengths, prompting some customers to seek out transactions.

*Secondly,* bank employees must possess ethical solid values, excellent professional qualifications, and a professional working style for effective communication and addressing customer inquiries.

*Thirdly,* service quality is a crucial factor in customer retention. Good service quality will not only prioritize customer usage but also have the potential to generate referrals to individuals with similar needs.

*Fourthly,* besides regular interest rates, banks can use promotional and preferential interest rate policies for untapped potential customer segments. Such policies stimulate potential customer needs.

In conclusion, understanding and addressing the factors of bank brand, bank staff, service quality, and loan interest rate are essential for improving consumer lending practices for individual customers in Can Tho City. Implementing the proposed policy implications can contribute to the overall success of consumer lending operations and customer satisfaction.

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