

BANK SELECTION CRITERIA WHEN BORROWING A PERSONAL LOAN

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ABSTRACT

In 2018 there was an increase in the number of people who borrowed personal loans, in both the European Union and Hungary. In Hungary, personal loans increased hugely by 48%. We conducted a non-representative survey. We wanted to determine those bank selection criteria that influence our decision on which particular bank we choose to borrow a personal loan. This information will help us to understand the customers better and let the banks provide a better service tailored to their needs.

Keywords: private loan, personal loan, bank selection criteria

1. INTRODUCTION

The personal loan is a type of private loan, which is a free credit, without provision, and usually it is short or medium-term [1].

The individuals can use the borrowed money for anything, like for buying a car, for buying durable goods or for a journey as well. The postulation of paying back the loan is that the person has to get his/her salary at bank account, because that will be the assurance of the refund.” [2]

We can experience the expansion of the retail lending in the eurozone and in Hungary as well. In the Eurozone the annual average credit growth at the individual sector at the end of 2017 was 3%, and in Hungary it is 2.7%. [3].

„Housing loans and personal loans continue to dominate the new disbursements. In 2018, the value of new contracts amounted to HUF 1,500 billion, corresponding to an increase of 37% compared to the previous year. In 2018 housing loans and personal loans accounted for 87 % of new loans, with an expansion of 31% and 48% compared to the volume in 2017.” [4]

Bátor researched the basic requirements, what we expect from bank’s financial services performance. „This requirements are the following: quality and convenience of service in the bank; friendly, helpful assistants; expert assistants; opportunity for personal customer service; wide spectrum for financial services; understandability and transparency of bank information materials; size of ATM networks.” [5]

Several important factors play a role in the decision making. Bátor and Sasné examined the importance of the sources of information during the bank selection process. They identified the following factors in order of importance: awareness of bank; professional opinions; expert opinion; opinions of acquaintances, family members; bank’s website; internet forums. [6]

In our research we examined the importance of bank selection criteria that influence borrowing personal loans, from the interest rates to the accessibility.

2. MATERIALS AND METHODS

We took a non-representative survey (electronic questionnaire), and we examined that which factors influence the individuals when they choose the bank where they would like to require loan. What impressed them in their decision, what are the reasons that affect these decisions. We have examined with a non-parametric test (Mann-Whitney U) the relationship between personal loan borrowing (borrowed personal loan previously or not) and bank selection criteria when borrowing a personal loan. We have used SPSS Statistics trial version.

3. RESULTS AND DISCUSSION

Mainly the 18-27 year old (39%) people filled in the questionnaire, but the 38-47 year old individuals (24%) also created a significant symmetric.

The survey was filled by women in 60.3%. In connection with the settlement type there is no remarkable differences, it is divided equally as the most people live in the county capital (36%) while in the smallest rate the villages were represented. (14.9%). (Figure 1)

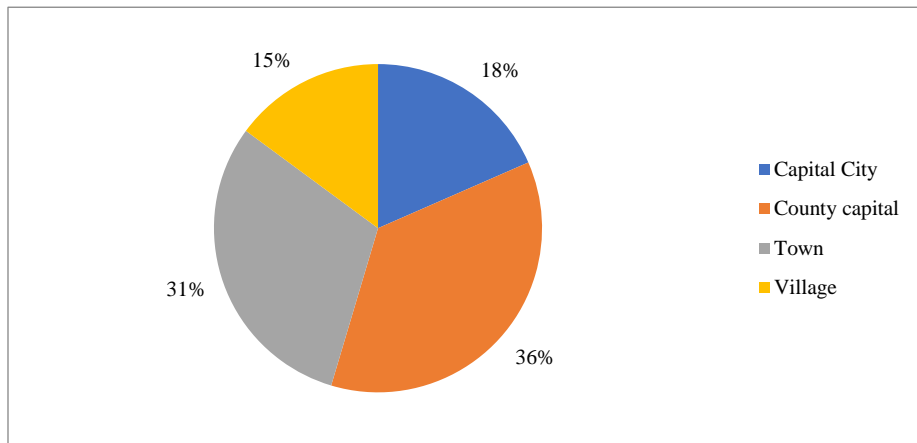


Figure 1. The settlement type of the respondents (our edit as the results of the research)

Considering the educational attainment mainly graduated people filled in the questionnaire (52% - higher education, 42% - secondary education). 83% of the respondents were under HUF 250,000 income, 17% over HUF 250,000.

3.1. Bank selection when borrowing a personal loan

On a one to sixth scala the individuals could mark how important the criteria when borrowing a personal loan for them (annual interest rate, fees, speed of requests). (1 means the least important factor, 6 means the most important factor.) As the result of the survey, we could establish the most important factors for the individuals. This factors are the following: annual interest rate (97%), other fees (93%), length of the credit analysis (91%), maximum amount of money to borrow (90%). The interest rate and the fees are the most important factors of the APRC that the banks must include in all of their conditions and advertisements. APRC says that annual how many percents do the individuals have to repay than they got.

Otherwise the people also considered the next factors important: preparedness of administrators (83%), speed of requests (79%) and accounting method the use of loan (75%). They didn't consider so important the maximum length of the term (67%) than the previous factors. The nearness of the bankbranch (58%), and the accessibility of the bankbranch (47%) aren't a major reason when they choose. The fact that somebody requires a loan at his bank and how getting to the bank didn't prove an important factor (50%). These results were ratified by the median and mode scores. (Figure 2)

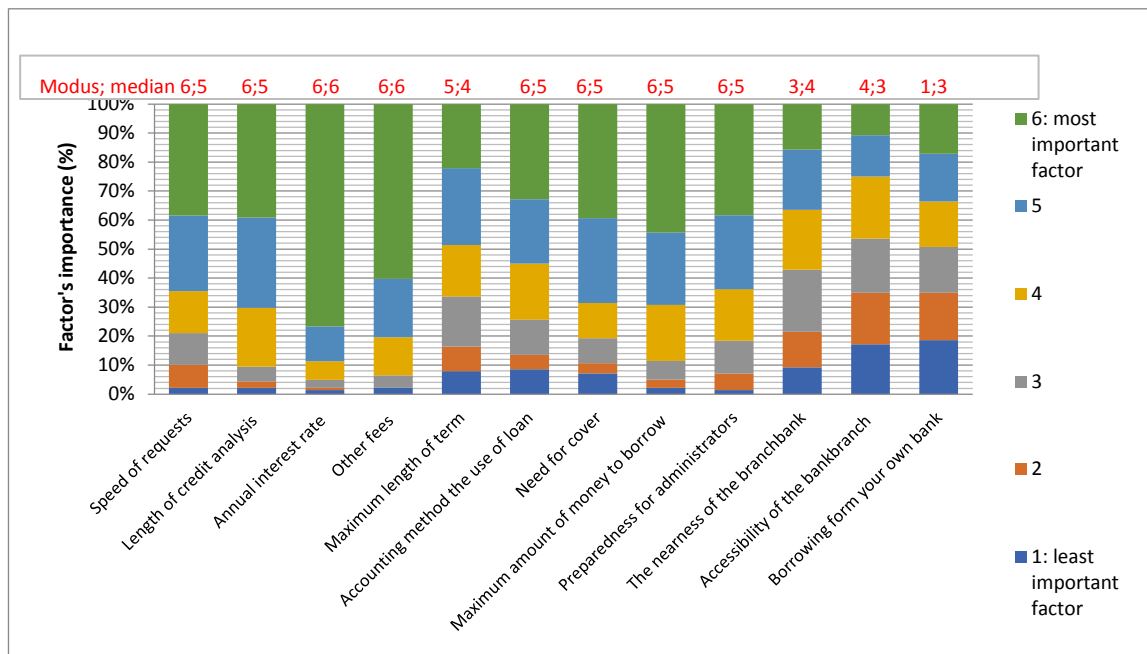


Figure 2. Bank selection criteria when borrowing a personal loan (our edit as the results of the research)

We have examined with a non-parametric test (Mann-Whitney U) the relationship between personal loan borrowing (borrowed personal loan previously or not) and bank selection criteria when borrowing a personal loan. We have used SPSS Statistics trial version (Table 1).

Table 1. Relationship between personal loan borrowing and bank selection criteria (our edit as the results of the research)

	Bank selection criteria	Significance level
Borrowed personal loan previously or not?	nearness of the branchbank	0.000
	accessibility of the bankbranch	0.000
	borrowing from your own bank	0.000

The results show that those who have borrowed a personal loan previously considered nearness and accessibility of the bankbranch, and choosing their own bank less important then those who have never borrowed a personal loan. The results of the non-parametric test were also supported by median and mode values (Table 2).

Table 2. Significance level, median and modus values in the relationship between personal loan borrowing and bank selection criteria (our edit as the results of the research)

	Borrowed personal loan previously or not?		Significance level (Mann-Whitney U)
	Yes	No	
The nearness of the branchbank			0.000
median	3	4	
mode	3	5	
The accomodation of the branch			0.000
median	3	4	
mode	1	4	
Borrowing at your own bank			0.000
median	2	4	
mode	2	6	

We have examined the relationship between bank selection criteria when borrowing a personal loan and the average monthly net income with a nonparametric test (Mann-Whitney U). On the basis of the results it can be stated that respondents with an income under HUF 250,000 ranked the accounting method for the use of loan and preparedness of administrators more important among the bank selection criteria than respondents with an income over HUF 250,000. The results of the non-parametric test were also supported by median and mode values (Table 3).

Table 3. Relationship between average monthly net income and bank selection criteria (our edit as the results of the research)

	Average monthly net income		Significance level (Mann-Whitney U)
	Under HUF 250,000	Over HUF 250,000	
Accounting method regarding the use of loan			0.016
median	5	4	
mode	6	1	
Preparedness of administrators			0.040
median	5	4	
mode	6	4	

In addition, we examined the relationship between bank selection criteria when borrowing a personal loan and level of education with a non-parametric test (Mann-Whitney U). The results show that respondents with secondary education ranked the length of the term and the accounting method for the use of loan more important than respondents with higher education. However, respondents with higher education assessed the accessibility of the bankbranch more important. The results of the non-parametric test were also supported by median and mode values (Table 4).

Table 4. Relationship between education and bank selection criteria (our edit as the results of the research)

	Level of education		Significance level (Mann-Whitney U)
	Secondary education	Higher education	
Maximum length of term			0.046
median	5	4	
mode	6	5	
Accounting method regarding the use of loan			0.011
median	5	4	
mode	6	6	
Accessibility of the bankbranch			0.038
median	3	4	
mode	2	4	

4. CONCLUSIONS

Based on our research, we suggest to banks that the interest rate as the most important factor should be as low as possible.

However, depending on the level of education and average monthly net income of the clients, and the fact whether they have previously borrowed a personal loan or not, other aspects may become important for certain groups, which should definitely be emphasized in banking communication.

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