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Master Thesis

A Study on The Factors affecting the Loan decision of the Customers of Capital City of Nepal.

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A Graduate Research Project Submitted To

University of Agder,
School of Business and Law
Department of Economics and Business Administration

Supervisor: Prof. Kristin Dale

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Sunil Thapa

1st June 2018

Declaration

I, Sunil Thapa, declare that this work, "A Study on Factors Affecting the Loan Decisions of The Customers of Capital city of Nepal" has not been previously submitted, either in whole or in part for a degree at this University or any other educational institution. To the best of my knowledge the thesis is original and does not contain previously published materials or written by any other persons except as acknowledged in the text and reference list.

Sunil Thapa

……………………………. 1st June 2018.

Signed

EXECUTIVE SUMMARY

The need of the customers has always been a significant concern for the banking and financial institutions regarding the loan requirement and the financing need because the actual lack of the financing is always backed up by the desire to repay the loan and the desire to demand more loan in future times. Since the banking and financial institutions has increased to a large number in the present context in comparison to a decade earlier, and the competition has reached an extreme level. With 28 commercial banks, more than 70 development banks, more than 75 finance companies, and several other co-operatives the market liquidity has been increasing day by day whereas the funds are not being invested in the place or sector that yields sufficient return that covers the cost and adds profit margin to the business. Because of the idle money, the value of fund of major banks and financial institutions is above 5% in the present context which has made them relatively less competitive in the market.

The present study entitled "Factors affecting the Loan decisions of Customers in capital city of Nepal" is undertaken with the specific objective to identify the influencing factors that customers consider while taking out the loan from banks and financial institutions. Accordingly, other primary objectives of this study are to determine the various variables that affect the loan decision of the customers and to define the degree of influence/significance of the relationship between the identified independent variables with the loan decision of the customers.

The research was done on the topic "Factor effecting the Loan decision of Customers in Capital city of Nepal." A comprehensive literature review was conducted in which the concepts of various types of loans, the reasons for seeking the loan and the relationship between independent variables, i.e. variables affecting the loan decision of the customers and the loan decision of the customers were reviewed and discussed from both customer and banks perspective. Various researches, articles by multiple authors, scholars were reviewed and discussed. For the study, literature reviews of the various studies that have been conducted on or similar to the subject in different parts of the world were reviewed. The hypotheses that were required to fulfill the research objectives were derived from the literature study. A conceptual model was also developed taking into considerations the various variables and perceived relationships among them.

For this study, a survey study was conducted to find out the relationship between the independent variables and dependent variable. The independent variables taken were quality of service provided by BFIs, satisfaction received by the customers from the service provided by BFIs, different loan covenants, the loan product itself, the installment structure on loan, the requirement of the insurance policy and guarantee and the interest rate on loan. The dependent variable was the loan decision of the customers. Questionnaires from a total of 219 respondents were collected and used for further analysis. The data collected from the respondents were analyzed and interpreted through the help of different statistical tools and results derived from the hypotheses testing were presented using different figures and graphs. The study includes demographic profile of respondents such as age, gender, academic qualification, employment status and monthly income. Descriptive statistics of different factors were studied. Cronbach's Alpha and Pearson correlation tests were used to infer the results of the study.

After analysis of the data, we can conclude that there is a significant relationship between various variables such as quality of service, satisfaction level of the customer, interest rates on the loan, loan covenants, installment structure and the loan product whereas no significant relationship was found between the insurance and guarantee condition of the loan. Similarly, through the data from both banks' respondent and customers, it has been tried to find the similarities and deviations of the influence of the independent variables towards dependent variable. After the analysis of the data collected from both side, it has been found that there is a high deviation in responses in two sub-variables of the independent variables. They are the influence of the sufficient number of bank personnel and the influence of others. Apart from these two, all the sub variables have similar kind of response from both banks and customers. Similarly, to identify the correlation between the multivariate variables, canonical correlation analysis is used.

Further, this study has provided various areas for future research. The areas include the development of products that are demanded by the customers and meet the need of the customers, focusing on the behavioral changes of the customers due to emerging competition in financial sector and mainly focusing on the service quality and conducting customer centric business.

Table of Contents

LIST OF TABLES

List of Figures

LIST OF ABBREVIATIONS

ATM	Automated Teller Machine
BFIs	Bank and Financial Institutions
NRB	Nepal Rastra Bank
NRS	Nepalese Rupees

CHAPTER-I: INTRODUCTION

1.1 Background of the study

The history of the human being shows that they used to participate in barter trading system to meet their absent needs by exchanging their goods with each other (Weatherford, 2009). Progressively, the barter trading system was substituted by the monetary system, in which money acts as a medium of exchange of goods and services. In recent days, money is commonly used, and a prominent factor which is a widely accepted as means of performing the business-related and other transactions.

With the aggressive global financial development, there is the intense competition between banks and other financial institutions in order to increase their business. Customers on the other hand are using different criteria to examine and select a bank for their financial activities. As a result, the selection process has been enriched with new methodologies, findings, and recommendations for customers as well as banks. Due to the practice of the irrational and immoral financial activities by some financial institutions, they have lost their reputation, credibility and trust. This has led to the collapse and financial crises of many institutions including: subprime lending in the USA, Lehmann Brothers collapse (McDonald et al., 2010). Hence, there is the need to assess what keeps the existing banking sectors and crucial factors that helps them to maintain the existing customers and ways to attract new customers. According to Karatepea et al., (2005) and Sharma & Rao (2010), total customer satisfaction with regards to loans by banking management are crucial in this context. Relatedly, the issue of "how customers select banks" in terms of loan purchased has been a major contestation in the literature (Anderson et al., 1976; Evans, 1979; Kaynack and Yavas 1985) as loans can led to sustainability or collapse of banks. In the same way, it can be a blessing or curse on the part of the customers with regards to conditions.

Nepal is not an exception with regards to loan purchase issues. Loan purchase by customers have always been a major concern for the banking and financial institutions regarding requirement and the financing. This is because the actual need of loan is always backed up by the desire to repay the loan in future. With 28 commercial banks, more than 70 development banks, more than 75 financial companies, and several other co-operatives, the competition has reached an extreme level. Banks and financial institutions have now realized the importance of the preferences and the needs of the customers in order to deploy their funds and provide the solutions to customers at large. In order to provide the financial solutions, they are eager to know the factors that determine and influence the loan purchase decision of the customers and their preferences. Therefore, the research is intended to generate useful information and insight to both the banks and financial institutions on factors to consider in order to sell the products, and the customers regarding what to look while taking the loans.

1.2 Statement of the Problem

The goal of this research is to empirically examine and extend our knowledge about the factors considered by the bank to disburse the loan, loan purchasing behavior of the customers and the factors that guide them to make such decisions. The main problem in Nepalese industry regarding the disbursement of the loan is that they do not identify the real need of the customers and offer them the loan to increase their investment and decrease the cost of the idle fund because of many loans have defaulted (Xinhua, 2017). Despite several efforts, many of the banks and financial institutions are not able to cater the financing need of the customers' and are not able to tailor the product that meets both the customers demand and the organizations motive.

1.3 Research question

The main research question is: what are the conditions that influence loan purchase in Nepalese Banking Sector? Are such conditions favorable to the banks or customers? If the banks, how do the customers cope with such conditions?

Specific research questions are:

- What are the factors that affect the loan decision of customers in capital city of Nepal?
- What is the relationship between those determinants and the loan decision of the customers?
- How does the demand and supply side: Bank and customer response in terms of factor consideration by the customer in loan decision?

Therefore, this study helps to analyze the demand for loan and develop the necessary plans and policies to the bank and financial institutions to make the loan more marketable to the customers and meet their needs. Further, this study is going to be carried out from customers' perspectives that are the core components of any business whether it is manufacturing, trading or even service-oriented industry.

1.4 Objectives of the Study

The main objectives of this study are to identify the demand for the loan and determine the determinants and their impact or influence on the loan decision and behavior of the customers so that it helps to develop an insight to the bank and financial institutions and to the customers themselves as well.

Besides this the objectives of carrying out this study are listed below.

- To identify the determinants of loan decision of the customers.
- To test the relationship between the determinants and the loan decisions of the customers.
- To identify the factors considered by the banking sector to fascinate the customer in qualitative way and comparing with the customer consideration

1.5 Significance of the Study

This study will help to identify the determinants and the factors that affect and influence the loan decision of the customers which will be helpful for the banks and financial institutions to gather the information and tailor the loan products and other products accordingly so that it helps them to gain the competitive advantage over their competitors. Since the Nepalese market is small, but overcrowded with financial institutions, it is very much important for the banks and financial institutions to develop the products that meet the needs of the customers. This research will also be beneficial for the customers who will get the idea about the factors to be considered before any loan and to make the choice for the right type of bank or financial institution and the right type of loan. Therefore, the significance of the study lies in its result which will help both the banks and financial institution and the customers to make the right decisions regarding the sale and the purchase of the loan respectively.

Many studies are done previously regarding the determinants that affect the customers preference in taking out loan has shown that different factors such as interest rates on the loan, transactions costs associated with the loan affect the loan taking decision of the customers. Many other studies showed that customers also consider the products and services offered by the financial institutions and these factors also have a major impact on the decision-making process of the customers while selecting the bank of their choice. Factors such as social demography and technology used by the bank and financial institutions have an influential impact on the decision-making process of the customers. Moreover, customers were found to have switching banks and financial institutions merely on the basis of the services and pricing made on the loan product and on other products as well. The literature review also found out that income level and the educational background of the customers also have a remarkable impact and influence on the decision-making process while choosing a bank or a financial institution for their loan and fund requirement. Literature review showed studies carried out in several parts of the world that the loan taking decision of the customers is mainly affected by the income level, educational background, interest rate on the loan, transaction cost of the loan in general.

This study analyses the determinants that have an important role in determining the customers' loan taking decision regarding the several loan products offered by various commercial banks and other financial institutions. This study primarily identifies the major determinants and factors that the customers consider while deciding from which financial institutions to take out loan. Secondarily, the study analyses the degree of influence or the importance of the determinants among various determinants that affect more and less in making the decision regarding the of loan from any financial institutions. This study is very important in Nepalese context where there are relatively large number of banks and financial institutions providing different financial services to a relatively smaller market. This study provides an insight to the banks and financial institutions to design new products and decide the pricing and other costs associated with the loan products.

1.6 Research Hypothesis

While carrying out the study hypothesis testing is done. Hypothesis testing is done on the following way.

- Ho_1: There is no significant relationship between customer satisfaction from bank and the loan decision of the customers.
- Ho_2: There is no significant relationship between service quality and the loan decision of the customers.

- $Ho_{3:}$ There is no significant relationship between Availability of Loan products structure and the loan decision of the customers.

- $Ho_{4:}$ There is no significant relationship between loan covenants and the loan decision behaviour of the customers.

- $Ho_{5:}$ There is no significant relationship between loan installment structure and the loan decision behaviour of the customers.

- $Ho_{6:}$ There is no significant relationship between insurance/guarantee requirement and the loan decision behaviour of the customers.

- $Ho_{7:}$ There is no significant relationship between interest rates on loan and the loan decision behaviour of the customers.

1.7 Assumptions and Limitations of the Study

Since, this study is being carried out to meet the academic requirement of MSc in Business Administration Program of University of Agder, Norway, this study will be carried out in a relatively short period with a small sample size being confined within the Kathmandu valley. Nepal, though the result of the study might be convincing, it might not be representative of the whole population of Nepal. In addition, the following limitation prevail which decrease the reliability and the validity of the study to some extent.

i. The constituent of the loan decision behavior of this study cannot be generalized to the whole population.
ii. The time to carry out the study is limited and relatively short.
iii. The sample size is relatively small.
iv. The sample will be collected only from inside Kathmandu valley while an effort will be made to incorporate the outside valley customers vide electronic media.
v. The research is focused on the service sector and is therefore relevant to service sector only.

1.8 Operational Definition

1.8.1 Concept

Loan is simply an agreement in which a lender provide money or property to a borrower, in return borrower agrees to repay the principle amount with the extra certain amount called interest within the agreed period of time (Saunders et al.,1997). Usually, the time of repay of loan is predetermined but the risk of loan default is the challenge for the lenders (though modern capital markets have developed many ways of managing this risk).

In finance, Loan is the lending of money from one individual, organization or entity to another individual, organization or entity. A loan is a debt provided by an entity (organization or individual) to another entity at an interest rate, and evidenced by a promissory note which specifies, among other things, the principal amount of money borrowed, the interest rate the lender is charging, and date of repayment (Kuratko, 2016). A loan simply the act of lending the money by the lender to the borrower charging certain interest rate for using the money for a period of time.

Simply in loan, the initial amount of money received by the borrower is called the principal, which is led by the lender, but the borrower is obligated to repay the initial amount of money lend by lender within the agreed time with extra amount payable in agreed period like monthly, quarterly, annually etc. which is called interest.

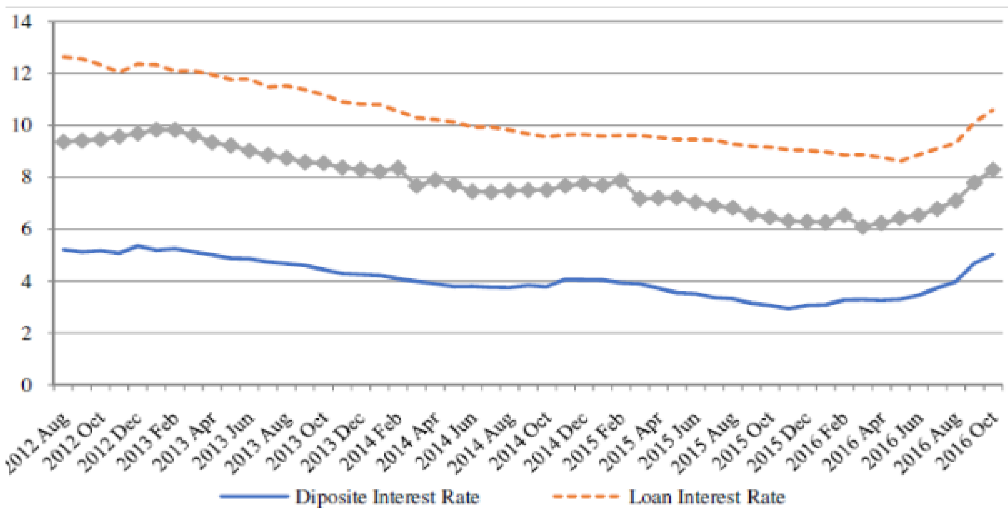
The loan is generally sanction at a cost, called interest on debt, which is an income for the loan provider against the money lending. In a legal loan, each of these obligations and restrictions is enforced by contract, which can also place the borrower under additional restrictions known as loan covenants.

The act of providing loan is one of the basic activity for financial institutions like banks and credit card companies. The main source of income for such institutions is money lending. Similarly, issuing of debt contracts such as bonds, treasury bills are certain primary source of funding for other financial institutions. (DeYoung et al., 2004)

Nepal as a study area

Nepal is a democratic republic country lies between the two big emerging nations, India and China. It has a population of 28.98 million. With the influence of the two big nations, Nepal is also in the phase of emerging. Today, the banking sector is more liberalized, modernized and systematically managed. There are various types of banks working in the modern banking sector in Nepal. It includes central, development, commercial, financial, co-operative and Micro Credit (Grameen) banks (Khanal, 2007). Technology is changing day by day. And changing technology affects the traditional method of the service of the bank. The figures below show the trend of the performance of the banking sector in Nepal.

Fig. 1.1 Deposit, lending and base rate (weighted average, percentage)



Source: Ministry of finance, (2017)

Table.1.1 Structure of Interest rate

Weightage Average Interest Rates	Mid-July 2015	Mid- Oct 2015	Mid-Feb 2016	Mid-Apr 2016	Mid-July 2016	Mid-Oct 2016	Mid-Feb 2017	Mid-Apr 2017
91-Day Treasury Bills	0.17	1.1	0.68	1.1	0.05	2.12	1.74	0.74
Interbank Rate								
Among Commercial Banks	1.01	0.64	0.26	1.59	0.69	3.27	2.71	0.9
Among other BFIs	3.89	2.1	1.21	1.52	3.25	4.13	5.53	7.96
Deposit	3.94	3.55	3.32	2.94	3.28	3.3	3.98	5.04
Credit	9.62	9.46	9.29	9.06	8.86	8.62	9.31	10.6
Base Rate	7.88	7.22	6.82	6.32	6.54	6.43	7.1	8.3

Source: Nepal Rastra Bank, (2017)

The above figure shows the deposit, lending and base rate of the Nepalese financial institutions in different periods. In the figure, we can notice that all three rates are in increasing order. The main two reasons for the skyrocketing of the interest rate in Nepalese market are, extreme lending by the bank compared to deposit collection and the weakness of government on spending in its resources, which has stagnated all the money circulation process. (Xinhua, 2017)

Table 1.2: Some recent indicators of financial Access

Indicators of Financial Access	Mid-July 2013	Mid-July 2014	Mid-July 2015	Mid-July 2016	Mid-March 2017
Total Number of BFIs Branches	2492	2604	2722	2896	3003
Commercial Banks	1486	1547	1672	1869	2013
Development Bank	764	818	808	852	836
Finance Companies	242	239	242	175	154
Population per Branch	10938	10617	10300	9818	9599
Number of Deposit Accounts	11403385	13129574	14934618	16836017	18206724
Number of Loan Acounts	849908	940005	1033383	1096570	1156841
Branchless Banking Centers	-	-	-	812	940
Mobile Banking Service Users	-	-	-	1754566	2236074
Internet Banking Service Users	-	-	-	515465	564128
Number of ATMs	1499	1652	1721	1908	1985
Number of Debit Cards	3581726	4131242	4531787	4657125	4848053
Number of Credit Cards	38587	57898	43895	52014	58932
Number of Deposit Accounts per 1000 Adult Population	678	761	844	929	983
Number of ATMs per 1000 Adult Population	8.91	9.57	9.73	10.53	10.72
Number of Branches per 100, 000 Adult Population	14.82	15.08	15.38	15.99	16.21
Number of Debit Cards per 100, 000 Adult Population	21297	23932	25611	25706	26177
Number of Credit Cards per 100, 000 Adult Population	229	335	248	287	318

Source: Nepal Rastra Bank, (2017)

The above table shows the progress of the Nepalese financial institutions for five years. The data shows the promising result of the Nepalese financial institutions. Considering the period from 2013 to 2017, the numerical value of the indicators of the financial access are in increasing order. This represents the optimist future of the financial institutions.

1.9 Organization of the Study

This research study is divided into five chapters: Introduction, Literature Review and Theoretical Framework, Research Methodology, Presentation and Analysis of Data and Summary, Conclusion and Recommendations. Followed by introduction chapter, Chapter Two entitled “Literature Review and Theoretical Framework” shows the conceptual framework of loan decision behavior of customer and of other related studies. Chapter Three entitled “Research Methodology” shows the research design, nature and sources of data and the statistical procedures and tools to present and analyze the collected data in the study. Chapter Four entitled “factors affecting the loan decision” analyze the factors that influence the decision making while loan from banks and financial institutions. The chapter will also discuss about the loan behavior i.e. the types of loan mostly being purchased, and the institution of the choice etc. The last i.e. Chapter Five chapter entitled “Summary, Conclusion and Recommendation” deals with summary and conclusion of the study and recommendations for banks and financial institutions as well as the suggestions to the customers about the things to be considered while loan decision.

CHAPTER-II: REVIEW OF LITERATURE AND THEORETICAL FRAMEWORK

2.1 Literature Review

Loan purchasing behavior has been a major type in the European and American countries where various types of loans are available to finance the need of the customers ranging from personal loan to business loan. While in Nepal although there are availability of various financial institutions offering different kinds of loans, the customers are not inhabited for the loan decision as compared to abroad customers.

2.2 History of Financial Institutions Providing Loan

2.2.1 International Context

The history of taking loan goes with the history of the establishment of banks and financial institutions in the world. The history of banking refers to the development of banks and banking throughout history, with banking defined by contemporary sources as an organization which provides facilities for acceptance of deposits, and provision of loans.

The history of banking starts with the first type merchants' bank of the ancient world, which used to provide the grains as a loan to the farmers and merchants who usually transport the goods from place to place. It was started in around 2000 BC in Assyria and Babylonia. Afterwards during the ancient Greece civilization and the Roman Empire, lenders based in temples made loans and evolve two crucial concepts of financial activity that is they accept the deposits and changed money. Historically, the development phases of the ancient China and India has also shown the evidence of money lending activity.

There is lots of the historical evidence to show the milestone development of a banking system in medieval and Renaissance Italy and mainly the affluent cities of Florence, Venice, and Genoa in the 14th century. During that period, Bardi and Peruzzi's families used to dominate banking in 14th century Florence, establishing branches in many other parts of Europe. Perhaps the most famous Italian bank was the Medici bank, established by Giovanni Medici in 1397. At present, the oldest bank, Banca Monte dei Paschi di Siena, headquartered in Siena, Italy, is operating the banking activities from 1472 A.D. (Pierre des essars et al., 1896)

In the beginning, the development of banking started from northern Italy throughout the Holy Roman Empire and gradually transferred to northern Europe in 15th and 16th century. During this development phase of the banking, there were several pivotal innovations introduced in the 17^{th} century in Amsterdam during the Dutch Republic and in the 18th century in London. (Pierre des essars et al., 1896). With the step in the 20th century, the drastic developments in telecommunications and computing act as major factors to bring the revolutionary changes in banking activities and support banks dramatically grow up in size and geographic spread. With the development of the 20^{th} century the world banking system became narrow and interlinked, the failure of the bank in one part of the world started to affect the economic environment of other for example the financial crisis of 2007–2008 caused many bank failures, including some of the world's largest banks, and raised much debate about bank regulation (Helleiner, 2011).

2.2.2 Nepalese Context

In the context of Nepal, the traceability of the actual history of the Banking systems is extremely difficult due to the lack of the prominent historical data, records, and information relating the banking activities in Nepal.

Nepal Bank Ltd. established in 1937 A.D. is the first commercial bank of Nepal considered as the milestone of modern banking Nepal. This bank was inaugurated by King Tribhuvan Bir Bikram Shah Dev in 1994 A.D. Initially, Nepal bank was established as a semi -government bank with the authorized capital of Rs.10 million and the paid -up capital of Rs[1]. 892 thousand. Until mid-1940s the bank has the power to issue the currency, but afterward with the increase in the development of Nepal the need of the currency increased. So, the Nepal Government (His Majesty Government on that time) established the fully government owned banking institution or body to issue national currencies and develop financial organization in the country. The central bank of Nepal, Nepal Rastra Bank was established in 1956 (Gajurel et al., 2012)

Before the establishment of the central bank, Nepal Bank used to act as central bank and operate the function of central bank. Hence, in 1955, Nepal Rastra Bank Act 1955 was formulated, which was approved by Nepal Government accordingly, the Nepal Rastra Bank was established in 1956 A.D. as the central bank of Nepal. Nepal Rastra Bank makes various guidelines for the banking sector of the country (Paudel, 2005).

[1] RS is Nepalese currency, $1= RS 98 approx.

Simply for the effective and efficient development of banking system, sound banking is essential. It is the back bone of the national economy. Previously, NRB used to gathers savings from all over the country and provides liquidity for industry and trade. In 1957 A.D. Industrial Development Bank was established for the industrialization in Nepal, later in 1959 A.D. it was renamed as Nepal Industrial Development Corporation (NIDC).

Since Nepal is the agriculture dominating country, the development of this sector means the development of 80% of the country. So, separate Agricultural Development Bank was established in 1968 A.D. This is the first institution in agricultural financing.

For more than two decades, no more banks have been established in the country. After declaring free economy and privatization policy, the government of Nepal encouraged the foreign banks for joint venture in Nepal.

2.3 Types of Loans

2.3.1Based on purpose

a. Business Loan

The Business loan is simply related to the business purpose. The business purpose can be establishing a new firm, vertical or horizontal integration of the products in existing business, expanding the geographical business boundary or establishing the business in the new market etc. There are different types of business loan some of them are Long-term loan and short-term loan, working capital loan, fixed term loan etc.

b. Personal Loan

The Personal loan is a loan specifically intended to meet personal needs. Often personal loans are termed as retail loans as well as it deals with individual customer's need. Personal loans can be of different types such as auto loan, home loan, education loan etc.

2.3.2 On the basis of security

a. Secured loan

A loan in which the borrower provides some tangible asset like. a car, land or property as collateral for the loan, which acts as a security to the creditor for the lend money, is called the secured loan.

Simply, the amount provided is secured against the collateral if the borrower fails to repay the loan and interest amount, legally the lender can take possession of the collateral and can sell or hold the asset to get the amount provide to the borrower, for example, foreclosure of a home. From the perspective of creditors', the secured loan is the debt in which the loan provider and borrower have agreed to give a certain part of the bundle of rights to the mortgaged property. Likewise, in the case of the default risk, if the sale of the mortgage assets fails to get enough money to repay the principal, the lender can use deficiency judgment against the borrower for the remaining amount.

b. Unsecured Loan

It is opposite of the secured loan in which the borrower does not provide any property and instead the creditor simply agree with the debt against the borrower despite of the borrower's collateral. Generally, the secured loan lenders are attracted towards the lower interest rates with full safety and security however the unsecured loan provider lend money due to the higher interest rate; although there are some other considerable factors like credit history, ability to repay, and expected returns.

2.4 Reasons for seeking Loans

The very first reason why the loan is taken is that people and companies do not always have enough money to spend or invest for what they want to. The second obvious answer is people take the loan to create leverage in the business. Apart of the reasons, people and business houses take loans for various below reasons.

- **Business Purpose**

Business companies take the loan for various business purposes as listed below:

- **Start New Business**

As starting a business requires a large sum of money; many companies take the loan from financial institutions as the companies on their own do not have that sum of money.

- **Expanding Business**

There are many companies whose strategy focuses on the expansion of their existing business and covering maximum market share. Therefore, in order enter a new market and establish their business in the new location requires a huge sum of money which they borrow from financial institutions.

- **Meet Seasonal Business Needs**

Business houses involved in the business of foods, clothes and other seasonal items seek the loan from financial institutions in order to meet the seasonal demand of the customers such as during Dashain and Tihar[2], many food items and clothe items are consumed and bought.

- **Personal Reasons**

People take loans from financial institutions in order to meet their individual needs such as building the house, buying the vehicle, educational purpose, fulfilling social obligations, healthcare expense, etc. Further, they also take the loan for investment purpose when they find an investment alternative that pays higher than the cost of the loan.

2.5 Functions, Duties and Powers of Central Bank

The function, duties, and power of the central bank of Nepal have been retrieved from the website of the central of Nepal under the title, Nepal Rastra Bank Act, 2058[3] (2002).

(1) As stated in the Section 4, the functions, duties, and powers of the Bank are presented below:

(a) To issue bank national currency.

(b) To formulate and support the government in monetary policies for the stability of economy.

(c) To formulate and implement the foreign exchange policies.

(d) To fix the rate of foreign exchange concerning the international monetary performance.

(e) To control foreign exchange reserve.

(f) To issue a license to commercial banks and financial institutions to carry on banking and financial business and to regulate, inspect, supervise and monitor such transactions.

(g) To perform as a bank, advisor and financial agent of Government.

(h) To perform a role as the guardian of commercial banks and financial institutions and the lender of the last resort.

(i) To manage the system of payment, clearing, and settlement with the prescribed regulation.

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[2] Festivals in Nepal

[3] 2058 is a Nepalese year equal to 2002 in English calendar.

(2) While exercising the powers conferred by this Act or any other prevailing law, the Bank shall have power to carry out other functions and take actions, which are incidental thereto.

(3) Everyone should follow the rules and regulation enacted by the central bank defined under the NRB Act 2002.

2.6 Regulation, Inspection and Supervision of the Nepalese Banks and Financial institutions

Actually, the modern financial sector reformation of Nepal was started in 2002 A.D with the help of World Bank. As a result, Nepal Rastra Bank Act-2058 B.S (2002 A.D), Bank and Financial Institutions Act-2063[4] B.S (2007 A.D) and Company Act-2063 B.S (2007 A.D) were in action from 2002. After the implementation of those Acts, Nepal Rastra Bank, central bank of Nepal has gained the power relating to licensing, supervising and regulating all the Banks and Financial Institutions of Nepal, except cooperative organizations, Employee Provident Fund and Citizens Investment Fund. Afterwards, Nepal Rastra Bank implemented the Umbrella Act to regulate the banks and financial institutions of Nepal (Kalika, S. N.).

The regulations, inspections and supervision acts of the Nepal Rastra Bank mentioned in Nepal Rastra Bank Act 2002, after amendment Bank and financial Act 2007 are presented below:

A. All the banks and financial institutions need approval to accept the deposits and giving credits. The process of accepting the deposit and the providing credit should be done with respect to the rules and regulation mentioned by the central bank.

B. Only the central bank has right to fix the rate of interest on deposit and loan.

C. In order to operate the financial activities, all the banks and financial institutions must get registration in central bank by fulfilling all the requirements.

D. Amendment of the banking and financial rules and regulation is solely authorized to central bank.

[4] 2063 is a Nepalese year equal to 2007 in English calendar

E. Banking and financial system and credit control are under the direct supervision of the central bank and all the financial institutions should follow the directives issue by central bank.

F. Banks and financial institutions should follow the instructions regarding the credit. Commercial banks and financial institutions shall advance credit to the sectors prescribed by the Central Bank from time to time for a prescribed period and in the manner prescribed by the Bank.

G. While issuing debentures and financial instruments by the banks and financial institutions, the approval of central bank is needed.

H. Regarding the inspection and Supervision regulation, Central bank has authority to frame and implement the inspection and supervision bye-law confirming to international standard. Also, central bank can inspect and supervise the commercial banks and financial institutions at any time.

I. For the exchange of Mutual Cooperation by the commercial banks and the financial institutions, central bank supervises, and the Mutual cooperation is only undertaking with its approval.

J. Regulation regarding the liquidation process

K. All the bank and financial institution should provide information to central bank before one month.

L. Central bank supervises and inspect the problems of the commercial bank and financial institutions under the insolvency Act and liquidation Act.

- ➢ Central bank has full authority to take over the commercial banks and financial institutions if their condition is worst.
- ➢ In order to restructure and reengineer the problematic commercial banks and financial institutions, The Reformative Measures and Rights Which can be Used by the Central Bank or the Official Appointed by the Central Bank.

- If the central bank is convinced that any commercial banks and financial institutions are in worst condition even after the reformative action under section 86E or corrective action under section 86F, such commercial bank or financial institution is unable to discharge its liabilities or there is no possibility to operate in healthy way, can apply to the Appellate Court for the dissolution of such commercial bank or financial institution.
- Concerning the Right to Appeal Against the Order of the central bank, Only the representative of shareholders of the commercial bank or financial institution can appeal to the committee within fifteen days against the action, order, decision or Proceedings of the bank or the official appointed by the bank, under section 86C, 86D, 86E, 86f and 86h, if not satisfied with such action, order, decision or proceeding (Nepal Rastra bank, 2002; 2007)

Table 2.1: List of Class A "Commercial Banks" of Nepal (Nepalese Rupee, Rs[5] in corer)

S.No.	Name	Operation Date (A.D.)	Head Office	Paid up Capital
1	Nepal Bank Ltd.	1937/11/15	Dharmapath,Kathmandu	649.95
2	Rastriya Banijya Bank Ltd.	1966/01/23	Singhadurbarplaza ,Kathmandu	858.90
3	Agriculture Development Bank Ltd.	1968/01/21	Ramshahpath, Kathmandu	1037.44
4	Nabil Bank Ltd.	1984/07/12	Beena Marg, Kathmandu	618.35
5	Nepal Investment Bank Ltd.	1986/03/09	Durbarmarg, Kathmandu	870.66
6	Standard Chartered Bank Nepal Ltd.	1987/02/28	Nayabaneshwor, Kathmandu	374.99

[5] Rs is Nepalese currency,1 corer is equal to 10 million.

7	Himalayan Bank Ltd.	1993/01/18	Kamaladi, Kathmandu	449.91
8	Nepal SBI Bank Ltd.	1993/07/07	Kesharmahal, Kathmandu	388.37
9	Nepal Bangaladesh Bank Ltd.	1994/06/06	Kamaladi, Kathmandu	401.18
10	Everest Bank Ltd.	1994/10/18	Lazimpat , Kathmandu	274.26
11	Bank of Kathmandu Lumbini Ltd.	1995/03/12	Kamaladi, Kathmandu	457.69
12	Nepal Credit and Commerce Bank Ltd.	1996/10/14	Siddharthanagar, Rupandehi	467.91
13	Kumari Bank Ltd.	2001/04/03	Durbarmarg, Kathmandu	269.92
14	Laxmi Bank Ltd.	2002/04/03	Adarsanagar, Birgunj, Parsa	303.92
15	Siddhartha Bank Ltd.	2002/12/24	Hattisar, Kathmandu	302.21
16	Citizens Bank International Ltd.	2007/04/20	Kamaladi, Kathmandu	553.74
17	Prime Commercial Bank Ltd.	2007/09/24	Newroad, Kathmandu	489.91
18	Sunrise Bank Ltd.	2007/10/12	Gairidhara, Kathmandu	530.14

19	Janata Bank Nepal Ltd.	2010/04/05	Naya Baneshwor, Kathmandu	206.00
20	Mega Bank Nepal Ltd.	2010/07/23	Kantipath, Kathmandu	401.20
21	Century Commercial Bank Ltd.	2011/03/10	Putalisadak , Kathmandu	368.90
22	Sanima Bank Ltd.	2012/02/15	Nagpokhari, Kathmandu	530.59
23	Machhapuchhre Bank Ltd.	2012/7/9	Prithwichowk, Pokhara, Kaski	386.45
24	NIC Asia Bank Ltd.	2013/6/30	Biaratnagar, Morang	581.96
25	Global IME Bank Ltd.	2014/4/9	Birgunj, Parsa	616.43
26	Civil Bank Ltd.	2014/4/14	Kamaladi, Kathmandu	458.38
27	NMB Bank Ltd.	2015/10/18	Babarmahal, Kathmandu	543.01
28	Prabhu Bank Ltd.1	2016/2/12	Babbarmahal, Kathmandu	588.14

Source: Nepal Rastra Bank, (2017)

There are altogether 28 commercial banks, 72 development banks, 46 finance companies, 41 microfinance companies and 15 savings and credit cooperatives licensed by Nepal Rastra Bank as of Chaitra end, 2017(NRB, 2017)

2.7 Studies on Customer Behavior and Preferences

Bhatta (2002) conducted a research which studied the customers' behavior and preferences regarding the type of loans and the type of banks. The study had the objectives: To understand the factors affecting the choice of financial institutions; to identify the factors affecting the choice of the type of services provided by the financial institutions and to understand the loan purchasing behavior of the customers. The research has pointed toward the increasing trend of people to keep a large sum of money at hand. The people may have been provoked by the cash shortages in the recent periods, especially when it is must (needed), like during the festivals. Compared to the monthly income cash at hand is around one-and half times the sum and compared to bank balance it is around one–fourth, all indicating a large sum of cash out of the banking systems. Regarding the reason for preference of their banks most customers acknowledged their service and efficiency. Technology comes to next of this, may be because many of the banks providing more or less similar services and technological products which are less differentiated. Some of the customers are involved in financial transactions with other types of financial intermediaries.

It is worth noticing the study done by Javalgi et al., (1989) in the USA. The objective of the study was: to identify the factors that contribute to the selection of banks in USA; to identify the relationship between the factors and the bank selection decision of the customers in USA. After the detailed analysis of the research made, it was found that financial factors (interest for saving accounts, fund safety and loan availability) play an important role in customers' decision to take out a loan from a particular bank. Moreover, the study also found that that another important factor affecting customers' decision to choose a bank is bank confidentiality. The study recommended that managers should realize that young people enjoy dealing with advanced technical devices such as ATMs. This indicates that, in their bank selection, the new generation of customers tends to put more emphasis on the factors which give them quick and convenient access to bank services, rather than factors related to hospitality, bank premises conditions and bank location.

Haron et al., (1994) surveyed 301 Muslim and Non-Muslim commercial bank customers to determine selection a dual banking environment. The main objective of the study was to determine the selection criteria for a bank and to determine the relationship between the contributing factors and the bank selection decision. Their main findings contributing to the selection of the bank were: fast and efficient services, speed of transactions and friendliness of bank staff. The results showed once again that customer service, service quality, bank's personnel openness and confidentiality were the key driving factors affecting customer decision to select a bank. The study also found that recommendations from acquaintances are also among important factors in selecting a bank for both male and female customers. Recommendations from friends and relatives is also the influencing for selecting the bank despite the fact that young people prefer acting independently. They found that Islamic religious belief, social responsibility and pricing are the most important factors in choosing a bank to do business with.

It is worth mentioning the study conducted by Mylonakis et al., (1998), investigating 811 bank customers in Greece (in the greater Athens area) asking them to identify the important bank selection criteria that urban consumers of saving accounts use in the Hellenic bank market. Again, the objective of the study was to identify the factors that contribute them to select a bank and to identify the relationship between the factors and the bank selection decision by the customers. Similarly, to the advance bank customers, Greek customers also seek good banking service as safe, fast and technologically modern environments. The most influential factors reported by Greek customers were location convenience and quality of service (attention to customers, personalized service, no queues). Additionally, other potential factors that affect customers' selection choice of a bank are services' efficiency, bank reputation, bank fees, convenient location and interest rates on saving accounts and loans.

According to Kamakodi & Khan (2008), Indian banking industry is undergoing metamorphosis in terms of adoption of technology and automation. The objective of the study was to identify the factors and selection criteria for the selection of an Indian bank and to find the relationship between those criteria and the bank selection decision. The research found out that new generation of private sector banks which came into existence in the last ten years have gained a substantial market share and government owned banks are losing market share to these new banks. It is very important for banks to understand the preferences of the customers to offer the services required both to attract new clients and protect the existing client-base from migrating to other banks. A survey was conducted, and results obtained from 292 clients were analyzed to understand the factors that influence bank selection reasons. The top 10 parameters based on importance were found to be Safety of Funds, secured ATMs, ATMs availability, reputation, personal attention, pleasing manners, confidentiality, closeness to work, timely service and friendly staff willing to work.

In a related study, Frangos et al., (2012) studied the factors that influence Greek customers' decision to take out a loan from commercial banks. The study found out that personal marital status, customer service, shop design and interest rates are the most significant predictors of taking loans. Several managerial implications suggest bank managers should focus on giving loans to single individuals as well as change their interest rates policies by decreasing rates for all kinds of loans, especially housing loans.

Another study done by Lerzan Aksoy et al., (2016) was with the purpose to provide marketing scholars and practitioners with a deeper understanding of the key drivers of loan selection and to estimate the relative value borrowers place on various attributes when selecting a loan provider among competitors. The study revealed that the customers give various values to different factors in the selection of one bank providing loan to other.

A study carried out by Ernst & Young (2010) was with an objective of highlighting the risks and opportunities facing the retail banking sector with respect to managing customer relationships today across Europe, analyzing what is relevant to a successful banking relationship, so as to achieve and maintain customer satisfaction in the current climate and identifying and commenting on what we see as the key action points that banks must take if they are to continue expanding their customer base in a challenging market. The findings of the study were that economic recession had negative impact on the trust of Europeans have in their banking partner, more than 74% of the customer having multiple banking relationship have only one product with their non-main banks. 24% of the customers changed their banks at some point in their life. Price, service and products are the three main reasons driving the customers to switch from one bank to another. A study was conducted by Prakash Dhakal (2012) with an objective to analyses the customer satisfaction regarding banking services provided by Nepal SBI Bank Ltd. The findings of the study were showed that high number of respondents stayed neutral about the loan products and online banking system of Nepal SBI bank. While other Customers are fairly satisfied with the scheme of loan products of Nepal SBI.

A Comparative Study by Gupta & Sinha (2015) on the various factors affecting the consumer’s decision towards purchase of home loan of SBI and LIC showed that Low Rate of Interest, Easy Accessibility, Status/Reputation of the institution and Scheme offered by the company, were the major factors that the respondents consider as the reason for selecting SBI as an institution for taking Home Loan, whereas the factor of Prompt service was found to be a major factor that the respondents consider as the reason for selecting LIC as an institution for taking Home Loan.

Faizah et.al., (2014), carried out a research study on factors affecting customer's choosing Islamic Personal Loan. The objective of the study was to examine how strong the progress of Islamic Personal Loan related to social demographic, product knowledge, service quality provided, and promotion done by the finance institution. Another purpose is to compare among these factors in order to know which one is more determinant in influencing respondents' intention to choose Islamic Personal Loan. The results showed that there is high correlation between Islamic social demographic, product knowledge, service quality provided, and promotion done by the finance the finance institution and the choice of the bank by the customer. Further, the study showed social demographic factor is the most determinant factors for the choice of banks for the customers followed by service quality and product knowledge and finally promotion done by the financial institutions.

Similarly, Boaz et al., (2014) studied factors that affect the demand of the customers for the financial services offered by commercial banks, and which factor influence the most for the demand of the services offered by banks. The findings showed that various factors such as income level, educational background, savings, transaction costs were the major determinants that affected the demand of the services offered by the commercials banks. On the other hand, the research also found that the saving account and the current accounts were the most solicited financial products offered by commercial banks. The most determining factor affecting the demand of the services offered was the transaction cost and the income level of the customers.

According to an analytical research carried out by Siddique (2012) in Bangladesh on bank selection by customers: "effective and efficient customer services", "speed and quality services", "image of the bank", "online banking", and "bank is well managed" are some of the important bank selection factors for private commercial bank customers. On the other hand, the most important bank selection factors for private commercial bank are "low interest on loans", "convenient branch locations", "safe investment (accountability of the govt.)", "variety of services offered", and "low service charges''.

According to Karthikeyan (2015), loan offered by Lakshmi Vilas Bank was satisfactory in comparison to other branches located in nearest places and then other close competitor banks and financial institutions as per his research work on customer preference towards loans and advances in Lakshi Vilas Bank, India. The study also found out that customers' preference towards new products and services offered by the bank was higher than the older products in addition to the interest rate on the loan and advances imposed by the bank and transaction costs as well which were main factors considered by the customers while showing their preference towards the products and services offered by the bank in context.

2.8 Theoretical Framework

Researchers Frangos et al., (2012) have one of the key papers on the study to undertake entire research. On the spirit of their paper, the following conceptual framework has been developed:

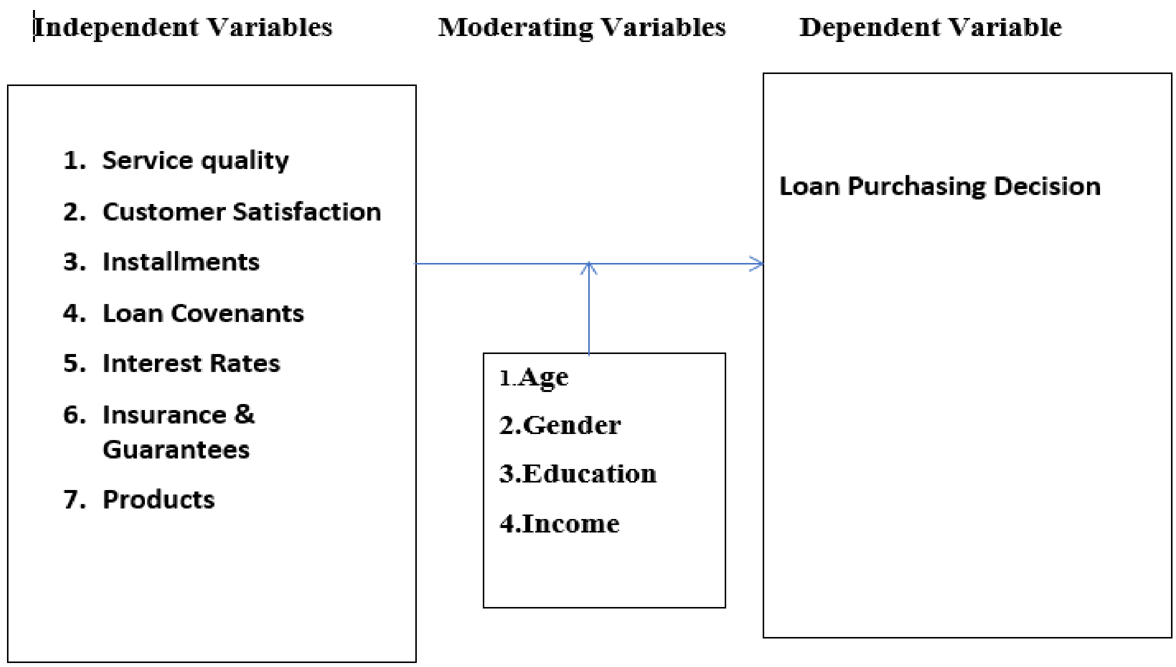

Fig: 2.1 Theoretical Framework

2.8.1 Independent Variables

Independent variables are those variables which are not affected by any other variables instead they stand uninfluenced and influence other factors or variable in a model. The independent variables presented in the theoretical framework are as follows.

Service Quality

Service quality refers to the service and its quality provided by the banks and financial institutions in comparison to the cost charged by them. Service quality is a non-quantitative variable and it is measured by the non-quantitative tools.

Satisfaction

Similarly, satisfaction is the feeling of better from the service provided by the banks and financial institutions measured in a subjective manner.

Installments

Installments refer to the amount to be paid to the bank to settle the loan in equal amounts at a regular interval. Since, this is a quantitative variable it will be measured by applying quantitative measuring tools.

Loan Covenants

Loan covenants refer to the terms and conditions of the loan contracting paper between the customer and the banks and financial institutions. The conditions mentioned in the loan paper is a major factor that determine the loan decision of the customer.

Interest Rate

Interest rate is the rate at which the lender is offering and the buyer or the borrower is accepting to purchase the loan for a definite time period. It is a quantitative variable and is measured in terms of numbers.

Insurance/Guarantees

Insurance or guarantees are the insurance to be done or guarantees to be obtained for the collateral that is going to be possessed by the bank in order to protect the bank against potential loss in the future.

Products

Products are the loan products and other products that the banks and financial institutions offer to the customers. For example, current account and saving accounts are deposit products while auto loan, home loan, education loan are loan products.

2.8.2 Moderating Variables

Moderating variables in the model where they do not directly affect the dependent variable but are the variables which facilitate or moderate the independent variables and produce a synergic effect on the dependent variables. Moderating variables include the demographic variables of the respondents or the customers such as age, gender, education, income, occupation, marital status etc.

2.8.3 Dependent Variables

In any model dependent variables are the variables whose value or the result depends on other independent variables and even on moderating variables as explained above. Independent variables affect the depended variables in a large extent and the relationship of independent variables to the dependent variables may vary in nature and magnitude. In the above model, loan decision is the dependent variable which might be positively as well as negatively affected by the independent and moderating variable.

CHAPTER-III: RESEARCH DESIGN AND METHODOLOGY

3.1 Research Plan and Design

The research design adopted in this study is a descriptive and analytical design. Descriptive research obtains information concerning the recent situation of the phenomena to describe, "What exists" with respect to variables or conditions in a situation. In short, it is the way of describing the participants in an accurate way (Kowalczyk, 2015). This study aims at finding the factors that customers consider while taking out a bank loan. Likewise, this study intends to test the hypothesis related: to the relation between loan taking decision of the customers, the demographic variables and the factors affecting the choice of customers. Although the financial institutions and the customers have a general understanding about the factors affecting the loan taking decision of customers, there is no specific studies concerning this topic in a Nepalese context.

The study uses the quantitative method to find the facts regarding the customers preference towards the factors affecting loan taking decision. For this purpose, the quantitative questionnaires will be administered to the respondents and their responses will be collected and analyzed. This research design assists in the purpose of the study to test developed hypothesis, based on previous studies.

3.2 Population and Sample Size

Population refers to the entire group of people that a researcher wishes to investigate in the study (Welman et al., 2005). A sample represents only a part of a population. Sampling may be defined as the selection of a part of the population on the basis of which a judgment or inference about the population is made (Etikan et al., 2016:1-4). Since this study is about the factors affecting the loan taking decision of customers, the population for this study comprises all the banking customers of the Kathmandu, working in different fields as well as certain banking personnel. The census of the population is not necessary for this nature of the study. That is why a sample from the population has been selected. The sample size for this study includes 219 respondents although the questionnaire was distributed to 250 respondents. Those respondents are from different categories, such as business persons, working people, retiree, students etc. Convenience sampling and random sampling were used for selecting the respondents for the study. Mainly, convenience sampling was used to select the bank personnel whereas random sampling was used for banking customers (business persons, working people, retiree, students).

3.3 Instrumentation of Data

The instrumentation of data is done through a structured questionnaire. The structured questionnaire includes two parts:

Parts 1: The first part includes certain demographic questions about respondents such as gender, age, and marital status. Additionally, it consists some of other economic, behavioral, and academic factors of the respondents such as income level, bank loan preference, objective of loan taking, financial institution selection, academic qualification, etc. It includes both qualitative and quantitative types of questions in terms of yes/no, multiple response, ranking.

Part 2: It consist of the main seven factors from the theoretical framework with five statements in each except one factor. All the statements were created through the previous studies and literature reviews under the supervision of the supervisor. The developed statements address all the seven hypotheses with the 5-point Likert scale where ‘‘1’’ represents the ‘‘no effect’’ and ‘‘5’’ represents the ‘‘high effect’’.

3.4 Data Collection Procedure

Primary data collection method is used in this study. The main tool in this study is a questionnaire. A questionnaire is a formal list of questions designed to gather responses from respondents on a given topic. Both the open-ended and closed-ended questions were used to collect the data. Close-ended questions restrict the respondents within the alternatives given, whereas open-ended questions help to gather more information apart from the specific topic as well. (Dudovskiy, 2016).

The survey was done within the Kathmandu valley of Nepal from March 5th to March 30th, 2018. The questionnaire was provided only to those respondents who agreed for the voluntary help for my survey. The responses on the questionnaire were taken in the following ways:

- By providing the printed questionnaire directly and in face to face communication: In this method, a printed form of questionnaire distributed directly to the potential respondents and collected the responses at the same time as well as at the convenience time of the respondents. Similarly, I collected most of the data through the face to face communication. The medium of communication was in the Nepalese language while describing the questions whereas the recording of data was in the English language. Initially the number of respondents targeted was 250 but only 219 responses were collected.

- By using electronic mails and internet applications: With the help of the google document, a list of the questionnaire was created which is attached in Appendix 1.3. The created questionnaire was sent to the respondents through the Facebook, Viber, and E-mail. Finally, all the data collected from direct interaction and printed paper form were inserted in google document questionnaire and compiled with the data collected through the means of Electronic mail and internet applications. Through the data compilation, a word excel sheet was generated which was proceed further for data analysis by SPSS computer application.

3.5 Measurement of Variables

A Five points Likert scale was used to record the responses in each sub-variables of the independent variables. The five points were divided as 1- no effect, 2-less effect, 3-neutral, 4-moderate effect, and 5-high effect. The sub-variables of the independent variables are listed below:

1.Customer treatment satisfaction:

- Professionalism and credibility of staff
- Staff confidentiality and trust
- Polite, knowledgeable and skilled staff
- Searching for the best possible solution
- Effectiveness in managing customer's complaints

2. Service provided by the Banks and financial institutions:

- Spread of branch network
- Sufficient number and well-functioning ATM
- Satisfaction with the layout and atmosphere
- Sufficient number of bank personnel
- Bank reputation

3. Quality of product provided by the banks and financial institutions

- The necessity to know the bank personnel
- The chance of you becoming a future customer
- Variety in product offerings
- Information about the bank and your loan

- Information about other services of the bank

4.Loan covenants

- Your tendency for making the risky decision
- Speed of approval and immediate payout
- Less cost of loan processing
- Influence of others
- Financial performance of the loan provider

5.Loan Installments

- Ability to finance up to the maximum value of the property
- Low installments over a long period of time
- Deferral of installments for something unexpected
- Possibility of partial or total early repayment anytime you want
- Ability to design the amount and frequency of installments based on your own capabilities

6. Insurance and Guarantee

- No need of underwriting property (housing)
- Existence of one or more guarantors
- Ability to provide an insurance program to protect the payment of installment
- Requirement of insurance of the borrower
- Requirement of insurance of the property and premium amount

7. Interest Rate

- Competitive interest rates on the loan
- Stable interest rate till the repayment period
- No penal interest charge for something unexpected

3.6 Validity and Reliability of Data

For establishing the reliability of the study, the questionnaire was developed carefully along with the use of correct words and meaning of the English language. The communication was done in the Nepalese language, but the data were recorded in the English language. Similarly, for establishing the validity, the questionnaire was prepared under the guidance of my supervisor who oversaw the questionnaire making process and helped to come with a standard set of questions in such a way that items on questionnaire cover the full range issues relevant to the phenomenon of the study.

Likewise, A pilot study was conducted to detect any kind of misunderstanding in the questions. Pilot test helps to detect the weakness in design and instrument of the data collection (Cooper et. al., 2006). Hence, initially, 10 respondents were selected for the pilot test. The respondents were chosen according to their academic qualification such as SLC graduate, intermediate, bachelor and master level. The Cronbach's Alpha coefficient was used to calculate and to identify the reliability of the instruments used. According to Sekaran (2000), Cronbach's Alpha coefficient smaller than 0.6 is considered poor, greater than 0.6 are considered acceptable and greater than 0.8 are considered good.

3.7 Data Analysis Methods and Tools

Google document, Microsoft Excel, and SPSS are the main tools used for the analysis of the data. Initially, all the data from the respondents were inserted in Google document and some graphical figures and charts were taken out for the descriptive analysis. Additionally, google document facilitates the user to generate the Word Excel sheet directly from the inserted data which saves time. An Excel sheet was used to convert the data into the appropriate format so that the SPSS can easily read the data. Likewise, with the help of an Excel sheet, certain pie charts and frequency tables of the data were generated. Lastly, the SPSS application used for the detailed analysis of the data. SPSS is an analytical and scientific software used to organize the data, determine significant relationships and identify the difference, similarities, and correlation within and between different categories of respondents. The use of the SPSS can be seen clearly in Chapter Four. The data analysis includes the following methods and tools:

1. Descriptive analysis of the variables.
2. The frequency distribution for several of the measures.
3. The demographic profile of respondent.
4. The establishment of Cronbach's Alpha for the reliability of the instrument.
5. Kaiser-Meyer-Olkin analysis of all independent variables and dependent variable.
6. Factor analysis.

7. Data Normalization
8. Hypothesis testing.

3.8 Cronbach Alpha coefficient calculation of the respondent from the pilot test

Table 3.1 shows the Cronbach's alpha coefficients of the questionnaire asked to respondents is at 0.889 by inserting the 33 items of the dependents variables. It is greater than 0.8 which means the reliability of the instrument used is good.

This Cronbach's alpha value of 0.889 was obtained after some amendments in the questionnaire sentences and structure after the pilot test which has made the questionnaire more effective and reliable.

Table 3.1 Cronbach's Alpha Coefficient

Reliability Statistics

Cronbach's Alpha	No of Items
0.889	33

CHAPTER-IV: RESULTS AND DISCUSSION

This chapter focuses on the analysis and interpretation of the data collected during the study and presentation of the results of the questionnaire survey. It also focuses on the test of the hypothesis formulated in the previous chapter. There are four sub-sections in this chapter.

- The first part deals with the respondents' demographic information such as gender, age, academic qualification, occupation, family income and monthly savings of the respondents involved in.
- The second part analyzes and interprets the collected data through descriptive analysis using SPSS software.
- The third part analyzes and interprets the collected data through bi-variable correlation between the dependent and independent variables.
- And the fourth and final part deals with the discussion of the results obtained through the analysis.

4.1 Respondents' Profile

This section deals with the demographic profile of the respondents and interpretation of the primary data collected through questionnaires. This will help to get insight into the demographic characteristics of the respondents under study. The respondent's profile includes gender, age, academic qualification, occupation, family income and monthly savings of the respondent.

4.1.1 Gender Status

Gender	Number of Respondents	Respondents having loan	Ratio
Male	130	35	0.26
Female	89	12	0.14
Total	219	47	0.22

Table 4.1 Gender Status of Respondents

Table 4.1 represents the gender distribution of the respondents concerning loan decision. It was found that the participation of male respondents was more than that of female respondents in the sample size of 219. The aim of the study was to make the sample size distribution equal, despite the independent selection most of the respondents were male. This is due to the following reasons:

men respondents were more willing to talk to the researcher. Again, the patriarchal system of the Nepalese culture is that, men are the first to be interviewed in a household. In view of this, most women were not willing to give different accounts after their husbands have spoken. In terms of loan decision, male respondents have higher score than females. This ratio depicts a huge impact of the gender while obtaining the loan from the financial institutions. There might be various reason behind the gender preference towards the banking loan. According to Fay & Williams (1993), females are inquired in detail than the male before sanctioning the loan to them, which was also confirmed by respondents spoken. Similarly, the risk-taking behavior of the male is higher than the female in the financial decision (Powell & Ansic, 1997). The risk-averse tendency of the female can be another factor for being the few numbers of female applying for the loan. The research evidence also suggests that while women entrepreneurs perceive that they are treated differently by bank lending officers (Fabowale et al., 1995).

4.1.2 Age Status

Age	**Number of Respondents**	**Respondents with loan**	**Ratio**
20 – 30	66	6	0.09
31 – 40	72	21	0.29
41 – 50	66	19	0.29
51 – 60	15	1	0.07
Total	219	47	0.22

Table 4.2 Age Status of Respondents with loan purchased

Table 4.2 shows the number of respondents with respect to the age group and the loan decision. Going through the above table, there is differences in the ratio of the respondents who have loan with respect to the different age group. The respondents with age group 51-60 has the least loan taking ratio. Age group has direct impact on the loan taking decision since the people at the age between 31-40 and 41-50 are mostly at the high point of the career and even people between these two age groups have the high risk-taking behavior (Lymperopoulos et al., 2006). The loan taking decision of the human differs with respect to the different age group as well as the loan preference.

Financial decision over the life cycle differs with the changing age which changes the involvement of people in financial activities (Agarwal et al., 2007). Similarly, the factor consideration while choosing the loan differ with respect to the different age group. In addition, in the study of Boyd et al., (1994), he had researched the importance of bank selection criteria in terms of the age of the head of the household. The research revealed that the age group under 21 years consider a bank's reputation as prominent factor for bank selection, followed by location, hours of operation, interest on savings accounts and the provision of convenient and quick services. The least prominent factors for this age group were found to be the friendliness of bank employees and the modern nature of their facilities.

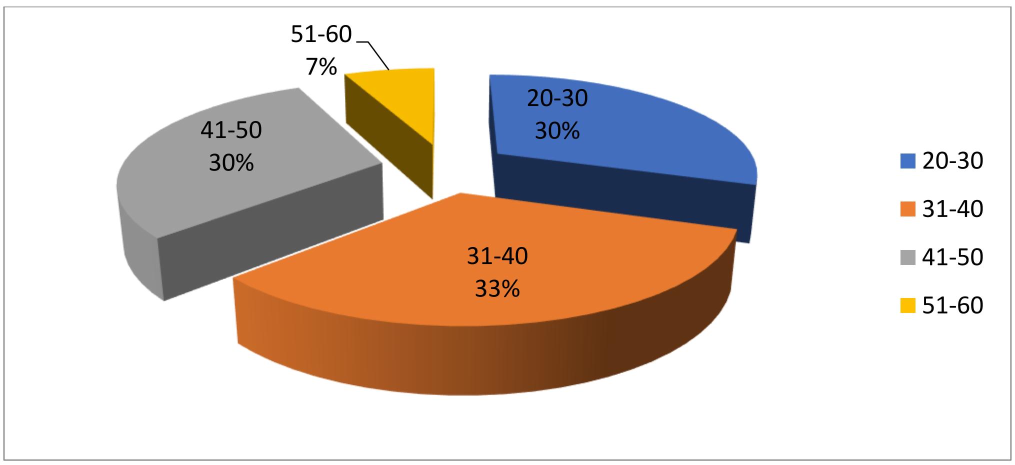

Figure 4.1 Age of Respondents

Figure 4.1 shows the age group of the respondents with respect to the percentage, where the majority of age represented 31-40 years age group. This age group represents 33% of the total sample. Similarly, 30% respondents were from 20-30 years age group and 41-50 years age group. Further, 7% were from the 51-60 years age group.

4.1.3 Status of Academic qualification

Academic Qualification being pursued	Number of Respondents	Percentage
Higher Secondary	39	18%
University	138	63%
Post Graduate	42	19%

Table 4.3 Status of Academic Qualification

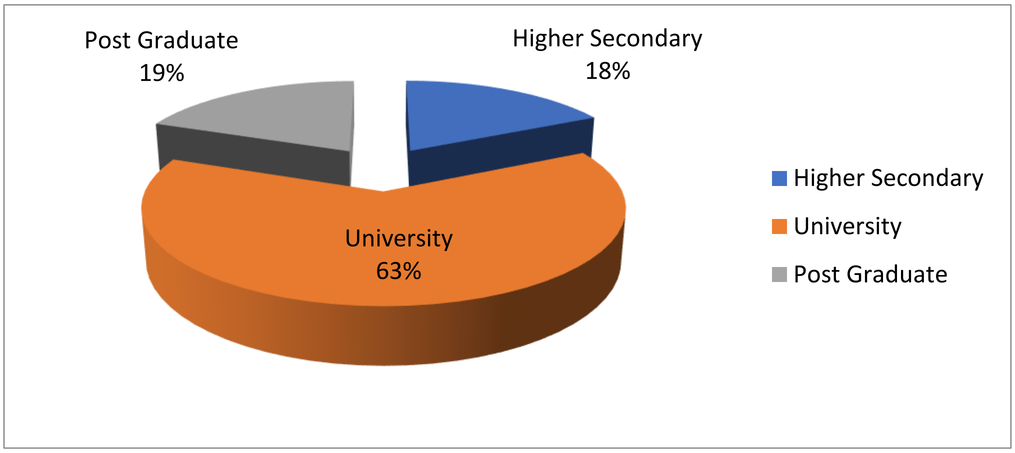

Figure 4.2 Status of Academic Qualifications of Respondents

Table 4.3 and Figure 4.2 show the educational qualification being pursued by the respondents. The respondents studying in higher secondary level represented 18% of the total sample. Likewise, the respondents studying in university represented 63%. Similarly, respondents in postgraduate represented 19%.

4.1.4 Employment Status of Respondents

Employment Status	No of Respondents	Percentage
Private	130	59%
Public	27	12%
Self Employed	39	18%
Others	23	11%

Table 4.4 Employment Status of Respondents

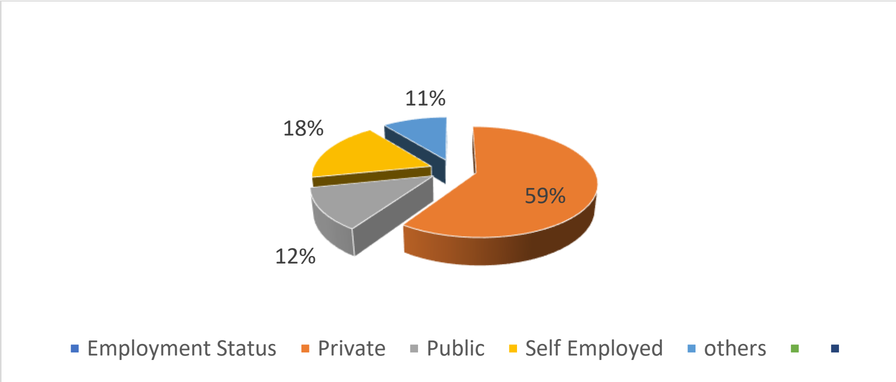

Figure 4.3 Employment Status of Respondents

Table 4.4 and Figure 4.3 represent the employment status of the respondents. The respondents who are involved in private job represented 59% of the total sample. Likewise, the respondents involved in public service represented 12%. Similarly, respondents who were self-employed, and others represented 18% and 11% of the total sample respectively.

4.1.5 Monthly Income of Respondents

Income (Rs[6])	No of Respondents	Percentage
Less than 25,000	13	6%
25,000 – 45000	113	52%
45,000 – 65,000	43	20%
65,000 – 85,000	45	20%
85,000 and above	5	2%

Table 4.5 Monthly Income of Respondent

[6] Nepalese currency(Rupees)

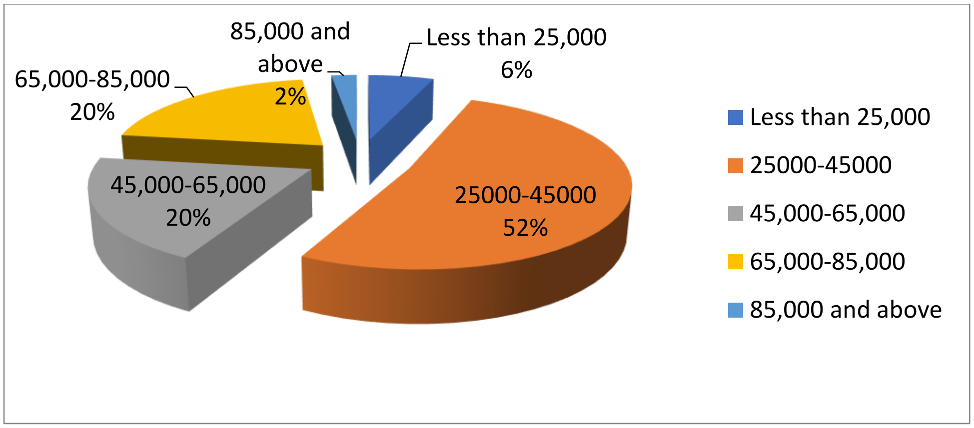

Figure 4.4 Monthly Income of Respondents

Table 4.5 and Figure 4.4 represent the monthly family income of the respondents. The respondents whose monthly income was less than Rs 25,000[7] represented 6% of the total sample. Likewise, 52 % respondents have a monthly income of Rs 25,000 to Rs 45,000. Similarly, 20% of the respondents have a monthly income of Rs 65,000 to 85,000 while only 2% of the respondents have a monthly income of Rs 85,000 and above.

4.1.6 Marital Status of Respondents

Status	**Number of Respondents**	**Respondents having the loan**	**Ratio**
Married	136	35	0.26
Single	83	12	0.144
Total	**219**	**47**	

Table 4.6. Marital status of respondents with respect to having loan

The number of loan holder concerning their marital status are presented in the above table. Married respondent has high score in loan decision. Marital status has high impact on banks' preference of selecting the loan customer **(**Ladd, 1998, 41-62) Married customers are preferred more compared with a single. (Kali Hawalk, August 25, 2016)

[7] $1=98 Nepalese Rupee(Rs) approximately.

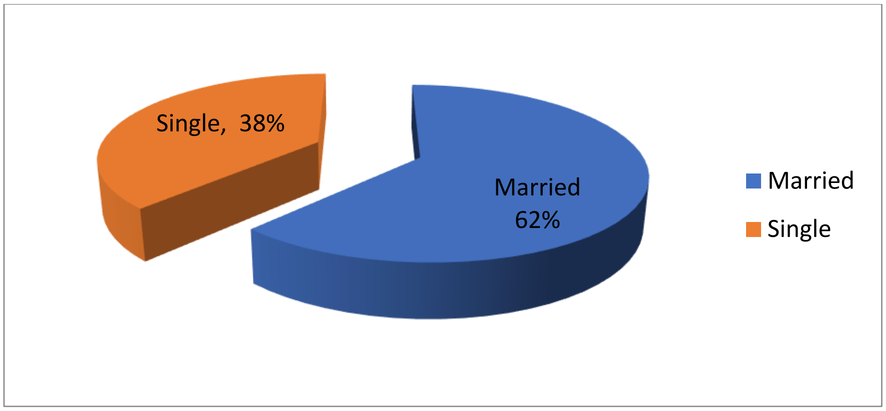

Fig 4.5 Marital Status of Respondents

Figure 4.5 shows out of the 219 respondents, 38% of the respondents were single while 62% of the sample were married.

4.1.7 Choice of financial institutions

Financial Institutions	No. of Respondents	Percentage
Commercial Banks	143	65%
Cooperatives	6	3%
Development Banks	30	14%
Finance Companies	40	18%
Total	**219**	**100%**

Table 4.7 Choice of financial institutions

Going through the above table, most of the respondents have chosen the commercial bank as the source of the loan. Since customers are very sensitive towards the various determinants of the loan, among the tabulate financial institutions, bank score high in the choice of financial institution for the loan by the customers'. In the context of Nepalese context, commercial banks are gaining a better position with respect to the reputations, financial performance, banking service, product offering, loan processing time as well as the interest rate (Ferrari, 2007).

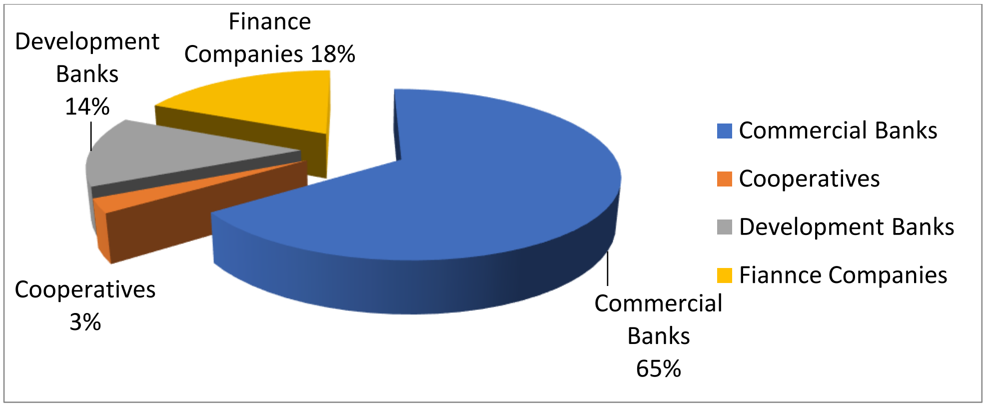

Fig 4.6. Choice of financial institution

Fig. 4.6 shows that most of the respondents are availing loan facilities from commercial banks followed by development banks followed by finance companies and lastly cooperatives.

4.1.8 Choice of type of loan

Table 4.8 and figure 4.8 shows that when customers were asked to which type of loan they are availing or are willing to avail from banks and financial institutions.

Loans	**No. of Respondents**	**Percentage**
Business Loan	53	24%
Auto Loan	84	38%
Home Loan	52	24%
Education Loan	31	14%
Total	**219**	**100%**

Table 4.8. Choice of type of loan

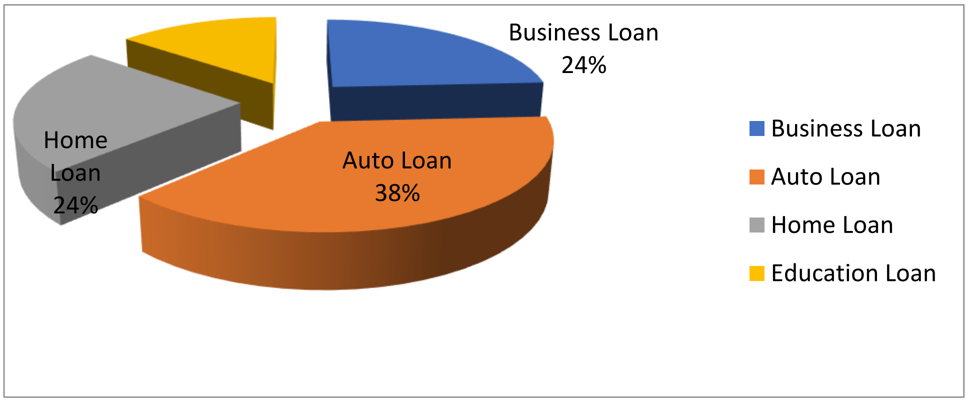

Fig 4.8. Choice of type of loan

The result showed that 38% of the respondents were availing auto loan, 24% of the respondents were availing house loan and business loan, and finally 14% of the respondents were availing education loan from their financial institutions.

4.2 Descriptive Analysis

This section deals with a descriptive analysis of the data collected through the questionnaires administered. The Descriptive study incorporates calculation of statistical measures such as mean, standard deviation, including maximum and minimum values. These values help the researcher to analyze the data concerning frequencies and aggregation relating to the research questions and variables. For this purpose, "Five Point Likert Scale" questions were asked to the respondents which scaled from 5 (High effect), 4 (Moderate effect), 3 (neutral), 2 (Less effect) to 1(No effect). The number of respondents in each statement was 219.

The primary objective of this study is to examine the relationship between the independent variables and a dependent variable of the loan decision behavior. In this study, independent variables are customers' satisfaction, service quality, loan covenants, installment, interest rate and product. Thus, the relationship between these independent variables and the dependent variable will be examined with various hypotheses

In this section, a descriptive statistic of customers' satisfaction, service quality, loan covenants, installment, interest rate and product are measured. Different descriptive analyses are assessed through various statements.

4.3 Reliability analysis of factors effecting the loan decision

Reliability refers to the ability of the questionnaire to make a constant measurement of the data across various items contributing to a variable. One of the best statistical methods for measuring such reliability is Cronbach's alpha; the Cronbach's alpha value range from 0 to 1 where '0' refers the data tested are unreliable, and '1' refers the data tested are reliable. According to Sekaran (2000), Cronbach's Alpha coefficient smaller than 0.6 is considered poor, greater than 0.6 are considered acceptable and greater than 0.8 are considered good.

Table 4.9 Reliability analysis of the independent variables and their items.

The table 4.9 below presents the reliability analysis of the independent variables with their different items. The sub-variables are either accepted or rejected is based upon the highest Cronbach's alpha value.

S.no	Items	Highest Cronbach's alpha with variable name
1.	Staff confidentiality and trust.	satisfaction received from the service provided by the bank (0.719)
2.	Polite, knowledgeable and skilled staff.	
3.	Professionalism and credibility of staff.	
4.	Searching for the best possible solution.	
5.	Effectiveness in managing customer's complaints.	
6.	Spread of branch network.	Quality of service provided by banks and financial institution (0.604)
7.	Sufficient number and well-functioning ATM.	
8.	Satisfaction with the layout and atmosphere.	
9.	Sufficient number of bank personnel.	
10	Bank reputation.	
11.	The necessity to know the bank personnel.	Product Offerings (0.614)
12.	The chance of you becoming a future customer.	
13.	Variety in product offerings.	
14.	Information about the bank and your loan.	
15.	Information about other services of the bank.	
16.	Your tendency for making risky decision.	Loan Covenants set forward by financial institutions (0.619)
17.	Speed of approval and immediate pay out.	
18.	Less cost of loan processing.	
19.	Influence of others.	
20.	Financial performance of the loan provider.	

21.	Ability to finance up to maximum value of property .	Loan Installments influence (0.738)
22.	Low installments over a long period of time.	
23.	Deferral of installments for something unexpected.	
24.	Possibility of partial or total early repayment anytime you want.	
25.	Ability to design the amount and frequency of installments based on your own capabilities.	
26	No need of underwriting property (housing).	Insurance condition (0.807)
27.	Existence of one or more guarantors.	
28.	Ability to provide an insurance program to protect the payment of installment.	
29.	Requirement of insurance of the borrower.	
30.	Requirement of insurance of the property and premium amount.	
31.	Competitive interest rates on the loan.	Interest rate of the loan (0.692)
32.	Stable interest rate till the repayment period.	
33.	No penal interest charge for something unexpected.	
34.	Your satisfaction towards the bank is increased.	Loan decision decision (0.535)
35.	Service Quality is increased.	
36.	Product match your requirement.	
37.	Loan covenants are made favorable to customer.	
38.	Installment is determined by the consent of both bank and customer	
39.	Insurance/guarantee of borrower is not required.	
40.	Interest rate is market oriented.	

The independent variable, Influence of insurance and guarantee, has highest value of 0.807 which is followed by the influence of loan installment with 0.738. Similarly, influence of satisfaction from the bank, influence of loan covenant, influence of product offering, influence of interest on the loan and loan decision are 0.719, 0.619,0.614 ,0.692 and 0.535 respectively. The lowest Cronbach alpha value is 0.535 which belongs to the dependent variable, loan decision. Since, all the variables have the Cronbach's alpha value greater than 0.6 except the loan decision.

4.4 KMO analysis and Factor analysis of all independent variables and their affect on dependent variable

Factor analysis is a statistical method used to analyze the correlation between the variables by the method of providing common dimensions, known as factors. This SPSS method helps to deduct random variables and identify the valid variables for further analysis. Rotated Component Matrix obtained from Factor analysis helps to choose factors whose value are above 0.5, since the rotated value above 0.5 is considered acceptable. The table below illustrates the reliability analysis of the statements of the variables:

Kaiser-Meyer-Olkin or KMO is the measure which helps to differentiate the different variable with respect to the value range from 0-1 and suggest doing further analysis considering only those variables which have a value higher than 0.5.

Table 4.10 KMO analysis and factor loading of the independent variables.

Independent variables	Sub variables	**Items**	KMO value	Factor loading
Customer Satisfaction from service provider.	Cust.1	Staff confidentiality and trust	0.716	0.669
	Cust.2	Polite, knowledgeable and skilled staff		0.791
	Cust.3	Professionalism and credibility of staff		0.547
	Cust.4	Searching for the best possible solution		0.697
	Cust.5	Effectiveness in managing customer's complaints		0.776
Service	Serv.1	Spread of branch network	0.601	0.598
	Serv.2	Sufficient number and well-functioning ATM		0.770

	Serv.3	Satisfaction with the layout and atmosphere		0.635
	Serv.4	Sufficient number of bank personnel		0.412**
	Serv.5	Bank reputation		0.701
Product	Prod.1	The necessity to know the bank personnel	0.701	0.538
	Prod.2	The chance of you becoming a future customer		0.676
	Prod.3	Variety in product offerings		0.704
	Prod.4	Information about the bank and your loan		0.621
	Prod.5	Information about other services of the bank		0.627
Loan covenants	Cove.1	Your tendency for making risky decision	0.693	0.649
	Cove.2	Speed of approval and immediate pay out		0.711
	Cove.3	Less cost of loan processing		0.775
	Cove.4	Influence of others		0.305**
	Cove.5	Financial performance of the loan provider		0.751
Loan Installments	L.ins.1	Ability to finance up to maximum value of property	0.645	0.571
	L.ins.2	Low installments over a long period of time		0.757
	L.ins.3	Deferral of installments for something unexpected		0.741

	L.ins.4	Possibility of partial or total early repayment anytime you want		0.805
	L.ins.5	Ability to design the amount and frequency of installments based on your own capabilities		0.598
Insurance and Guarantee	Ins.G1	No need of underwriting property (housing)	0.813	0.668
	Ins.G2	Existence of one or more guarantors		0.778
	Ins.G3	Ability to provide an insurance program to protect the payment of installment		0.856
	Ins.G4	Requirement of insurance of the borrower		0.656
	Ins.G5	Requirement of insurance of the property and premium amount		0.808
Interest rate	IntR.1	Competitive interest rates on loan	0.663	0.828
	IntR.2	Stable interest rate till the repayment period		0.874
	IntR.3	No penal interest charge for something unexpected		0.769
Dependent variables	Items			
Loan decision	Dec1	Your satisfaction towards the bank is increased	0.788	0.752
	Dec2	Service Quality is increased		0.661
	Dec3	Product match your requirement		0.864

	Dec4	Loan covenants are made favorable to customer		0.873
	Dec5	Installment is determined by the consent of both bank and customer		0.103**
	Dec6	Insurance/guarantee of borrower is not required		0.502
	Dec7	Interest rate is market oriented.		0.612

Thus, after the KMO analysis, the following items were deleted as the factor loading was less than 0.5:

1. Under the loan covenants, independent variable, *Influence of other* while taking loan decision has the factor loading less than 0.5. (0.305 < 0.5).

2. Similarly, *the sufficient number of bank personnel of Bank service* has factor loading value 0.412. (0.412 < 0.5).

3. Looking at the dependent variable's items, *Installment is determined by the consent of both bank and customer* has factor loading value smaller than 0.5 i.e.0.103<0.5.

4.5 Normalization of data

The measurement of the data normalization has direct impact on the hypothesis testing. As the rationale behind hypothesis testing relies on having something normally distributed (Field, 2009). So, normalization of data is prominent in order to obtain real results. Simply Skewness measures the level of symmetry of collected data which means if the left and right sides of data set look symmetric or not while considering from the center. Likewise, Kurtosis helps to measure whether the data are light-tailed or heavy-tailed while comparing to a normal distribution. Data sets with high kurtosis possess heavy outliers while data sets with low kurtosis lack outliers (Measures of Skewness and Kurtosis, retrieved 2016). The value of skewness and kurtosis should lie between -2 and +2 for the data to be normally distributed (George & Mallery, 2010).

The following table shows the Skewness and Kurtosis of the average of variables after they were obtained from Reliability analysis and Factor analysis:

Table 4.11 Normalization of data

Items	N	Minimum	Maximum	Mean	St. Deviation	Skewness	Kurtosis
		Statistic	Statistic	Statistic	Statistic		
Average of customer satisfaction selected from factor and reliability analysis	219	2.20	5.00	4.0658	0.489	-0.564	1.270
Average of service selected from factor and reliability analysis	219	2.75	5.00	4.2021	0.39780	-0.523	0.713
Average of product selected from factor and reliability analysis	219	2.60	5.00	4.0539	0.47759	-0.543	0.336
Average of loan covenant selected from factor and reliability analysis	219	3.25	5.00	4.2991	0.40789	-0.384	-0.589
Average of loan installment selected from factor and	219	2.00	5.00	4.2731	0.53480	-1.258	1.908

reliability analysis							
Average of insurance and guarantee selected from factor and reliability analysis	219	1.00	5.00	2.7324	0.75358	0.817	1.193
Average of interest rate selected from factor and reliability analysis	219	2.00	5.00	4.3090	0.41311	-1.845	1.901

The above table illustrate the variables obtained after reliability and factor analysis with their skewness and kurtosis value which fall within the range of -2 to +2. Hence, the data are normally distributed approximately.

4.6 Bi-variable correlation analysis and Hypothesis testing

A Correlation is one of the important measure. A Correlation is useful for measuring the strength of relationship between the variables. Simply, bi-variable correlation the measurement of identifying the correlation between two variables. The measurement of a correlation is symbolized by R, shows the degree of relationship between two different variables. The range of correlation starts from -1 to +1. The value near -1 signifies negative relationship which means that increment in one variable will lead to decrement in other variable and vice versa. The measure near to +1 signifies positive relationship which means that an increment in one variable will lead to an increment in another variable and vice versa.

Pearson Correlation method has been used to find out bi-variable correlation among the variables. In order to perform the Pearson correlation analysis, the average mean of each items of the variable are calculated excluding the items rejected from the factor analysis. The following table shows the relationship between the variables.

4.7 Summary of Hypothesis Testing

The below presented table represent the summary of the bi-variable correlation between the two variables at a time. Only, those hypotheses are accepted whose p- value is greater than the 0.05. The acceptance of the hypothesis represents the significance of the independent variable on the independent variable vice versa.

Table 4.12 Summary of Hypothesis Testing by using Bi-variable correlation statistical method

Hypotheses	**Variables**	**Parameters**	**Loan Decision**	**Conclusion (HOi)**	**Remarks (significance level)**
H_{01}	Satisfaction	Pearson Correlation	0.135	Rejected	5%
		Sig. (2-tailed)	0.046		
		N	219		
H_{02}	Service Quality	Pearson Correlation	0.136	Rejected	5%
		Sig. (2-tailed)	0.045		
		N	219		
H_{03}	Product Availability	Pearson Correlation	0.246	Rejected	1%
		Sig. (2-tailed)	0.000		
		N	219		
H_{04}	Loan Covenants	Pearson Correlation	0.201	Rejected	1%
		Sig. (2-tailed)	0.003		
		N	219		
H_{05}	Installment	Pearson Correlation	0.142	Rejected	5%

		Sig. (2-tailed)	0.036		
		N	219		
H_{06}	Insurance/ Guarantee	Pearson Correlation	0.052	Accepted	No significant
		Sig. (2-tailed)	0.447		
		N	219		
H_{07}	Interest Rate	Pearson Correlation	0.062	Rejected	5%
		Sig. (2-tailed)	0.017		
		N	219		

4.7.1 Satisfaction of the customers and the loan taking decision

Hypothesis (Ho_1): There is no significant relationship between satisfaction of the customer and the loan decision of the customers.

Hypothesis 1 is about discovering the relationship between the satisfaction of customer from banks and financial institutions and their decision regarding the loan from banks and financial institutions.

Table 4.12 shows the correlation analysis between customers' satisfaction and the loan taking decision of the customers. Since the p-value is less than alpha, i.e. $0.046<0.05$, the correlation is significant between the variable at 5% level of significance. From this analysis, it can be understood that the customers' satisfaction is important for loan taking decision of the customers. Further with the correlation value of 0.135, it can be said that there exist positive relations between customers' satisfaction from the banking and financial institutions and loan taking decision of the customers. Thus, hypothesis $H_0$1 is rejected at 0.05 level of significance.

4.7.2 Service Quality provided by the financial institutions and loan taking decision

Hypothesis (Ho_2): There is no significant relationship between service quality and the loan decision of the customers.

Hypothesis 2 is about discovering whether the relationship, correlation exists between the service quality provided by the banks and financial institutions and their decision regarding taking out the loan from banks and financial institutions.

Table 4.12 shows the correlation analysis between service quality and the loan taking decision of the customers. Since the p-value is greater than alpha, i.e. 0.045<0.05, the correlation is significant between the variable at 5% level of significance. From this analysis it can be understood that the quality of service provided by the banks and financial institutions is important for loan taking decision of the customers. Further with the correlation value of 0.136, it can be said that there are positive relations between quality of service and loan taking decision of the respondents. Thus, hypothesis $H_0 2$ is rejected at 0.05 level of significance.

4.7.3 Product availability and loan decision

Hypothesis (Ho_3): There is no significant relationship between product availability and the loan decision of the customers.

Hypothesis 3 is about discovering whether the relationship, correlation exists between the product availability on the loan and customers' decision regarding taking out loan from banks and financial institutions.

Table 4.12 shows the correlation analysis between product availability and the loan taking decision of the customers. Since the p-value is less than alpha, i.e. 0.000<0.05, the correlation is significant between the variable at 5% level of significance. From this analysis, it can be understood that the product availability is important for loan taking decision of the customers. Further with the correlation value of 0.246, it can be said that there is positive relation between product availability and loan taking decision of the respondents. Thus, hypothesis $H_0 3$ is rejected at 0.05 level of significance.

4.7.4 Loan covenants and loan decision

Hypothesis (Ho_4): There is no significant relationship between loan covenants and the loan decision of the customers.

Hypothesis 4 is about discovering whether the relationship, correlation exists between the loan covenants and customers' decision regarding taking out loan from banks and financial institutions.

Table 4.12 shows the correlation analysis between loan covenants and the loan taking decision of the customers. Since the p-value is less than alpha, i.e. 0.003<0.05, the correlation is significant between the variables at 5% level of significance. From this analysis, it can be understood that the loan covenants are important for the loan taking decision of the customers. Further with the correlation value of 0.201, it can be said that there is positive relations between loan covenants and loan taking decision of the customers. Thus, hypothesis H_04 is rejected at 0.05 level of significance.

4.7.5 Installment structure of the loan and loan decision.

Hypothesis (Ho_5): There is no significant relationship between installment structure of the loan and the loan taking decision of the customers.

Hypothesis 5 is about discovering whether the relationship, correlation exists between the satisfaction of customer from banks and financial institutions and their decision regarding taking out loan from banks and financial institutions.

Table 4.12 shows the correlation analysis between the loan installment structure and the loan taking decision of the customers. Since the p-value is smaller than alpha, i.e. $0.036<0.05$, the correlation is significant between the variables at 5% level of significance. From this analysis, it can be understood that the installment structure of the loan is important for loan taking decision of the customers. Further with the correlation value of 0.142, it can be said that there is positive relation between the loan installment structure and loan taking decision of the customers. Thus, hypothesis H_05 is rejected at 0.05 level of significance.

4.7.6 Insurance/guarantee requirements and loan taking decision

Hypothesis (Ho_6): There is no significant relationship between insurance/guarantee requirement on the loan and the loan decision of the customers.

Hypothesis 6 is about discovering whether the relationship, correlation exists between the insurance/guarantee requirement on the loan and customers' decision regarding taking out loan

Table 4.12 shows the correlation analysis between insurance/guarantee requirement and the loan taking decision of the respondents. Since the p-value is greater than alpha, i.e. $0.447>0.05$, the correlation is not significant between the variables. From this analysis, it can be understood that the insurance/guarantee requirement on the loan is not important for loan taking decision of the customers. Further with the correlation value of 0.052, it can be said that there is positive relation between insurance/guarantee requirement and loan taking decision of the customers. Thus, hypothesis H_06 is accepted at 0.05 level of significance.

4.7.7 Interest rate of loan and loan decision

Hypothesis (Ho_7): There is no significant relationship between interest rate on the loan and the loan decision of the customers.

Hypothesis 5 is about discovering whether the relationship, correlation exists between the interest rate on the loan and customers' decision regarding taking out loan from banks and financial institutions.

Table 4.12 shows the correlation analysis between interest rate and the loan taking decision of the customers. Since the p-value is less than alpha, i.e. $0.017<0.05$, the correlation is significant between the variables at 5% level of significance. From this analysis it can be understood that the interest rate on the loan is important for loan taking decision of the customers. Further with the correlation value of 0.062, it can be said that there is positive relation between favorable interest rate and loan taking decision of the respondents. Thus, hypothesis H_07 is rejected at 0.05 level of significance.

Conclusively, from the table 4.12 we can see the hypothesis 1, hypothesis 2, hypothesis 3, hypothesis 4, hypothesis 5 and hypothesis 7 are rejected showing that there exists significant relation between the independent variables (satisfaction, service quality, Product availability, loan covenants, loan installment and interest rates) and loan decision of the customers. But there is not significant relationship between insurance/guarantee requirement and loan decision of the customers.

4.8. Qualitative analysis of the factors affecting the loan decision of customers from the Banks' perspective.

Apart from the quantitative analysis of the factors affecting the loan decision of the customers of the Kathmandu valley, qualitative analysis of the factors affecting the loan decision from the bank perspective is another part of my study. For this purpose, three commercial banks of the Kathmandu valley were selected as the respondents. With the help of the unstructured or open-ended questions, the data were collected through direct interviews in April 2018. In this regard, the managerial level of the bank personnel was selected in order to collect the reliable and realistic information.

Regarding the information from the interview questionnaire, loans have been found as a major source of income for the commercial banks of Kathmandu. The spread between the interest rate of deposit and credit sides is the major source of banking income. Each bank has the separate department for handling the loan only. It was quite surprising that every bank has various small branches in the Kathmandu valley, consisting the loan department with specific staffs for handling the work related to loan. This shows how important loans are for the commercial banks of Kathmandu. According to Malede (2014), providing loan to the various public and private sectors in order to fulfill their demand of money with the aim of gaining profit is the major task of the bank. Among the various types of the loan application in aggerate, it was found that the auto loans, business loans, home loans and finally the education loans were the most encountered loan by the commercial banks of Kathmandu. Describing the factors considered by the commercial banks before the loan disbursement was quite surprising. As per the banking rules, most of the banks use five most prominent factors to examine the eligibility of the customer for the bank loan i.e. character, collateral, capacity, capital, and condition (Woodruff, 2018). But, in the case of the Kathmandu valley, most of the banks select the customers with reference to the values of collateral, incomes and most surprisingly with respect to the references and personal contacts. Apart from these factors, they also consider other factors, but they are not important as above-mentioned factors.

Frank, Massy and Wind (1972) have classified the market segmentation as a set of variables or characteristics which are used to represent the potential customer in homogeneous group. Almost all the three banks have similar kind of market segmentation. They have segmented their market as per the demographic and socio-economic variables like age, gender, social class, income level, occupation etc. Also, they provide different kind of banking services and facilities as per their market segments. Since the Nepalese banking sector has been liberalized in 2002 after the formulation of the NRB[8] Act 2002, Nepal has become the free competitive market for the Nepalese banks as well as foreign joint ventures.

Looking at the advertisement means of the banks, it was found that most of the banks were focusing on newspaper advertising, magazine advertising, as well as hoarding board advertising which can be easily seen in the Kathmandu. Only a few banks were focusing on different means of advertisement like radio ad, television ad, sponsorship. Like other developing countries, still the Nepalese banks are not considering the internet and online advertising as advertising means due to the limited access to internet. Although Nepalese banks have joint venture with foreign bank,

[8] NRB is Nepal Rastra Bank, central bank of Nepal.

they have not adopted the modern internet banking in general. Only few banks have adopted an online banking system with limited service.

Considering the decision about the interest rate, all the commercial banks must follow the interest rate criteria fixed by the central bank. Based on the central bank decision on minimum and maximum interest rate limitation, commercial banks decide their interest rate on their deposit and loan with respect to their expenses, the banks' qualities as well as their competitors.

4.8.1 Comparison of the emphasis given by the banks and customers on the factors affecting the loan decision of customers.

In order to compare the emphasis given by the banks and customers on several above illustrated variables that affects in the loan decision of the customer, a survey among the bank personnel has been done. Looking at the below table, we can see the similarities and differences in the responses of the banks' personnel and the Banking customers in different determinants of the loan affecting the loan decision of the customers.

Table 4.13 Independent variable average mean of banks' responses and customers' responses

Independent variables	**Items**	Average Mean (Bank)	Average Mean (Customer)	Difference (Bank view minus customer view)
Customer Satisfaction from service provider.	Staff confidentiality and trust	4.67	4.86	-0.19
	Polite, knowledgeable and skilled staff	3.67	4.24	-0.57
	Professionalism and credibility of staff	3.00	3.05	-0.05
	Searching for the best possible solution	3.67	3.93	-0.26
	Effectiveness in managing customer's complaints	4.33	4.24	0.09
Service	Spread of branch network	5.00	4.87	0.13
	Sufficient number and well-functioning ATM	4.67	4.02	0.65
	Satisfaction with the layout and atmosphere	3.00	3.28	-0.28
	Sufficient number of bank personnel	4.00	2.58	1.42**

	Bank reputation	5.00	4.64	0.36
Product	The necessity to know the bank personnel	2.67	4.03	-1.36**
	The chance of you becoming a future customer	3.00	3.52	-0.52
	Variety in product offerings	5.00	3.99	1.01**
	Information about the bank and your loan	4.33	4.76	-0.43
	Information about other services of the bank	3.25	3.97	-0.72
Loan covenants	Your tendency for making risky decision	2.67	3.61	-0.94**
	Speed of approval and immediate pay out	4.67	4.81	-0.41
	Less cost of loan processing	4.67	4.54	0.13
	Influence of others	3.67	2.81	0.86
	Financial performance of the loan provider	3.67	4.24	-0.57
Loan Installments	Ability to finance up to maximum value of property	5.00	4.79	0.21
	Low installments over a long period of time	3.00	4.35	-1.35**
	Deferral of installments for something unexpected	2.33	3.63	-1.3
	Possibility of partial or total early repayment anytime you want	2.67	3.75	-1.08**
	Ability to design the amount and frequency of installments based on your own capabilities	5.00	4.84	0.16
Insurance and Guarantee	No need of underwriting property (housing)	2.67	3.38	-0.71
	Existence of one or more guarantors	3.00	2.54	0.46
	Ability to provide an insurance program to protect the payment of installment	2.33	2.40	-0.07
	Requirement of insurance of the borrower	2.33	2.96	-0.63

	Requirement of insurance of the property and premium amount	2.67	2.38	0.29
Interest rate	Competitive interest rates on the loan	5.00	4.94	0.06
	Stable interest rate till the repayment period	5.00	4.70	0.30
	No penal interest charge for something unexpected	4.00	3.28	0.72

Initially, considering the independent variable, customers' satisfaction from the banking services, interestingly both the banks and customers have given high point to the item, staff confidentiality and trust. Particularly, the difference in bank view and customer view in this item is -0.19 which is tiny. Similarly, although there are tiny differences in the points of the remaining items of the customer satisfaction factor, the responses of the banks and customers look similar which are all above the neutral except the Polite, knowledgeable and skilled staff. This item has highest difference between banks' and customers' views i.e. Bank view minus Customer view is -0.57. This value represents the banks have given high credit to this item for influencing the customer loan decision. Looking at the bank minus customer view value, all the values are negative except the one, this value show the banks have under estimated the customer satisfaction than the customer for considering this independent variable to influence the customers loan decision.

Secondly, looking at the service quality variable, both the banks and customers have given high preference in the spread of bank network in customer loan decision which is closely followed by the bank reputation. Both of these items have very tiny differences in bank and customer views. But the items, sufficient number of bank personnel seems opposite in bank and customer responses. Bank has considered sufficient number of the personnel as high influencing factor in the customer loan decision whereas the customer has treated this item as lowest influencing item in their loan decision. The difference between the bank view and customer view in this item is 1.42. This value is the highest difference value among the items of the service variable in the bank view minus customer view. Looking at the bank minus customer view column of the service variable, it is noticed that the bank has considered the items of the service variable high influencing than the customer except the one item i.e. satisfaction with layout and atmosphere.

Similarly, in the product variable, information about the bank and the loan has given highest emphasis by the banks as well as the customers. But, the necessity to know the bank personnel is the only item in this factor which has is ranked differently by the banks and customers. The difference between the bank view and customer view in this item is -1.36. This negative difference represents that customers have given high emphasis to this item whereas the banks have given low emphasis. Apart from this, although Variety in product offering has a one-point difference in bank view and customers view, it is above the neutral, i.e. high effect and moderate effect.

Likewise, Speed of approval and immediate pay out and Less cost of loan processing have been taken as the items which have high influence in loan decision of customer by the both banks and customers but the difference between the bank view and customer view in this item is -0.41. But the bank has taken Influence of others has nearly moderate effect whereas the customer considered it as the less effect item. Surprisingly, regarding the Financial performance of the loan provider, banks have given low emphasis whereas customers have rated it above the moderate emphasis item. In loan installment factor, both the banks and the customers have taken the item; Ability to finance up to maximum value of property and Ability to design the amount and frequency of installments based on your own capabilities, as the most influencing factors in customer loan decision. In this factor, both the banks and the customers have scored all the items as the above moderating influencing factors. Looking at the bank view minus the customer view, three items of loan installments have more than 1-point difference. This difference represents that loan installments variable has high deviation between the bank and customer in influencing the customer loan decision.

From the correlation, analysis it has been accepted that there is no significant relation between the insurance and guarantee and the loan decision of the customer of Kathmandu. There might be several reasons for this result which is still the part of the research.

Finally, looking at the interest rate variable, both the banks and the customers have a similar response. Competitive interest rates on the loan and Stable interest rate till the repayment period have almost the same response from the banks and customers i.e. both the items have almost the high effect in customer loan decision whereas there is above 0.5 points difference in the response of banks and customers in No penal interest charge for something unexpected. But, both the banks and the customers marked the No penal interest charges for something unexpected above the neutral effect. We can see the positive differences in all three items of the interest rate considering the bank view minus customer view. This positive difference represents that bank has given high emphasis to the items of the interest rate for influencing the customer loan decision than the customer.

Conclusively, sufficient number of bank personnel, the necessity to know the bank personnel, V variety in product offerings, low installments over a long period of time, and possibility of partial or total early repayment anytime you want are main items of the variables which have high deviation between the bank and customer responses.

4.9. Discussion of the results

The main objective of this study is to examine the relationship between determinants affecting the loan decision of the customers. This study focuses on which of the influencing factors is most important in determining the loan decision of the customers.

The respondents comprised of 59% male and 41% female. The major respondents are of 31-40 years which represented 33% of the total sample. Likewise, 63 % respondents have a university degree. Similarly, 67% of the respondents are employees of private companies, only 12% of the respondents were employees of the public organization and 21% of the respondents were self-employed. This shows that the respondents' category is well distributed so that it can produce an effective result.

Likewise, under the reliability and validity analysis of the data. The Cronbach alpha has been calculated with the help of the SPSS data analysis application. Only those items which have Cronbach alpha value higher than 0.5 are considered for further analysis. During this test, all the variables have Cronbach alpha value higher than 0.5.

While using the factor analysis statistical method, the first test we consider is Kaiser-Meyer-Olkin(KMO). Considering the KMO analysis of the data, only those variables which have scored KMO value higher than 0.5 were forwarded for further factor analysis. Observing the KMO analysis and factor analysis table, since all those variables have KMO value greater than 0.5, they were forwarded for the further factoring.

After the KMO analysis of the variables, the items of the variable were factor loaded. The value of factor loading should be greater than 0.5 in order to select those variables. While doing factor loading only 2 items of the independent variables have factor loading value smaller than 0.5. They are sufficient number of bank personnel and influence of other, from influence of loan covenants and influence of installment respectively. Since, sufficient number of bank personnel and influence of other have the factor loading value 0.412 and 0.305 respectively, which are smaller than 0.5, were rejected for further analysis.

Discussing the normalization of the data, skewness and kurtosis of the data have been calculated. If the skewness and kurtosis value of data lies between -2 to +2, then the data is said to be normal. Otherwise, the number of the respondent should be increased to normalize the data. Looking at the data normalization table, all the variables have the skewness, and kurtosis value lies between -2 to +2 which fulfill the data normalization criteria in my project. Likewise, observing the average mean of the independent variables, six of the independent variables have average mean above 4 which is above the moderate effect, whereas the insurance and guarantee has average mean 2.7324 below the average scale. This average mean represents the consistency of the scale as per the respondent.

We can see in the correlation table that the correlations between the dependent variable (loan decision of customer) and the independent variables are positive. Among those variables, stronger correlation was observed between Product availability on the loan and loan decision. It is worth noticing the study by Javalgi et al. (1989) in the USA, "Using the Analytical Hierarchy Process for Bank Management: Analysis of Consumer Selection Decision". After the detailed analysis, he has found that the availability of loan as a product is a prominent factor for the customer loan decision. The highest value of correlation between other independent variables and dependent variables is 0.246. This value gives a view that the availability product is observed to be the most effective factor for loan determinants for customers. Kamakodi and Khan (2008), has study the Factors Influencing Bank Selection Decisions of Indian Customers. He has also concluded that the quality of service, customer satisfaction for the bank, installment, competitive interest has greater influence in customer loan taking decision. Followed by the loan covenant which is observed to be the second-best factors that affect the loan decision of the customers with the correlation value 0.201. Similarly, the correlation between the loan decision and other independent variables (customer satisfaction, service quality, installment and interest rate) are 0.135,0.136, 0.142 and 0.150 respectively. Similarly, Faizah et.al., 2014, carried out a research study on " Factors

Affecting Customer's Choosing Islamic Personal Loan". The study showed social demographic factor is the most determinant factors for the choice of banks for the customers followed by service quality and product knowledge and finally promotion done by the financial institutions. Although the influence of insurance and guarantee has a minimum correlation value of 0.052, due to the lack of the significance of the data, this independent variable is rejected.

Chapter V: Canonical Correlation Analysis of the Multivariate Variables.

Canonical correlation analysis is the advanced statistical tool for identifying the relationship between two multivariate sets of variables (Hardon et al. 2004). There is one independent variable with seven items and seven independent variables with 33 items in my study. So, the canonical correlation seems convenience as an advanced data analysis method in my study. This analysis tool created the 6 canonical variables for measuring the relationship in response to two sets of variables which is shown in table 5.1. Here Pi denotes the canonical variable.

5.1 Data Interpretation

Table 5.1 Canonical correlations settings

	Values
Set 1 Variables	Dec1 Dec2 Dec3 Dec4 Dec6 Dec7
Set 2 Variables	Cus.T1 Cus.T2 Cus.T3 Cus.T4 Cus.T5 Serv.1 Serv.2 Serv.3 serv.5 Prod.1 Prod.2 Prod.3 Prod.4 Prod.5 Cove.1 Cove.2 Cove.3 Cove.5 L.ins.1 L.ins.2 L.ins.3 L.ins.4 L.ins.5 Ins.G1 Ins.G2 Ins.G3 Ins.G4 Ins.G5 IntR.1 IntR.2 IntR.3
Centered Dataset	None
Scoring Syntax	None
Correlations Used for Scoring	6

The second step in this statistical analysis is the creation of null hypothesis for the Canonical Correlation. The null hypothesis is presented below.

Ho: There is no significant relationship between the two sets of variables.

Looking at table 5.2, we can test the null hypothesis created above.

Table 5.2 Canonical correlation with sig. value.

	Correlation	Eigenvalue	Wilks Statistic	F	Num D.F	Denom D.F.	Sig.
1	.689	.903	.215	1.733	186.000	1083.128	.000
2	.515	.362	.409	1.203	150.000	910.038	.061
3	.462	.271	.557	1.005	116.000	733.727	.473
4	.402	.193	.708	.809	84.000	554.314	.886
5	.304	.102	.844	.609	54.000	372.000	.986
6	.264	.075	.930	.540	26.000	187.000	.967
H0 for Wilks test is that the correlations in the current and following rows are zero							

Since Pi denotes the canonical variable, here P1 to P6 are 6 canonical variables. Looking at the sig value of each canonical variable, P1 reject the null hypothesis at 1% significant level, whereas the P2 reject the null hypothesis at 10% significant level. Both of the canonical variables are prominent for the correlation measurement of the multivariate variables of my study. So, both the canonical variables are considered at 99% and 90% confidence level.

Table.5.3 Set1 Standardized canonical correlation coefficients for items of dependent variable.

The following table shows the standardized correlation coefficients between the canonical variable P1 and the dependent variable and its items. For the convenience to understand the correlations between the canonical variable and two sets' variables the minimum correlation value is set as ±0.15 in my comments.

Variable	1	2	3	4	5	6
Dec1	-.078	-.631	-1.253	.138	-.549	.509
Dec2	-.945	.151	-.003	-.172	-.154	-.378
Dec3	.079	-1.641	1.179	-.913	.095	.002
Dec4	.040	1.853	-.450	.109	1.292	.024
Dec6	.076	.590	.265	-.239	-1.028	.156
Dec7	-.165	.089	-.227	-.359	-.116	-.939

Comparing with the minimum set correlation value, canonical variable P1 has correlation with certain variables of set1 which are "*increased service quality''*(Dec2) and ''*market-oriented interest rate''*(Dec7) respectively. Here both ''*increased service quality''*(Dec2) and ''*market-oriented interest rate''*(Dec7) are negatively correlated. Similarly, looking at the second canonical variable(P2), five items *"satisfaction towards the bank is increased''*(Dec1), ''*increased service quality''*(Dec2) *"products match the requirement''*(Dec3), *''loan covenants are flexible to customers''*(Dec4), and *"Installment is determined by the consent"* (Dec6) have the correlation value greater than convenience set value, i.e. ±0.15. But, "*increased service quality''*(Dec2) has a strong negative correlation with P1 and positive correlation with P2 canonical variable. In canonical variable P2, *''satisfaction towards the bank is increased''*(Dec1) and *'''products match the requirement''* (Dec3) have strong negative correlation whereas *''loan covenants are flexible to customers'' and ''Installment is determined by the consent of both bank and customer''* have positively correlation.

Table5.4 Set 2 Standardized Canonical Correlation Coefficients for items of independent variables.

The following table shows the correlation between the canonical variables and the items of the set2 variables.

Canonical Correlation Coefficients						
Variable	1	2	3	4	5	6
Cus.T1	.135	.236	.120	-.140	.210	-.188
Cus.T2	-.220	-.170	-.174	-.427	-.086	.025
Cus.T3	-.006	.116	.282	.153	.198	-.116
Cus.T4	.174	-.341	.263	-.180	-.234	-.237
Cus.T5	.093	.537	-.143	.090	.253	-.126
Serv.1	-.341	-.262	-.241	.222	.232	-.063
Serv.2	-.384	.063	-.091	.305	-.002	-.017
Serv.3	-.279	.236	.053	-.548	-.056	-.053
serv.5	-.322	-.041	.590	-.051	-.214	.254
Prod.1	.002	.083	-.292	.096	-.354	.175

Prod.2	.036	.384	-.043	-.153	.120	-.360
Prod.3	.048	-.626	-.263	-.357	.152	.076
Prod.4	-.042	.315	.154	-.074	-.402	.182
Prod.5	-.117	.084	.018	.067	-.111	-.195
Cove.1	.072	.361	-.209	.030	.132	.195
Cove.2	-.026	-.332	-.047	.491	.125	.145
Cove.3	.117	-.160	-.102	-.409	.110	.022
Cove.5	-.186	-.214	.196	.171	-.657	-.489
L.ins.1	.004	.174	-.289	-.001	.141	-.126
L.ins.2	.018	.011	-.072	.359	.498	-.106
L.ins.3	-.210	.518	.094	-.353	-.305	.419
L.ins.4	.214	-.353	.020	.122	-.260	-.144
L.ins.5	.050	-.175	.502	-.166	.097	-.010
Ins.G1	-.053	.134	-.271	-.101	.055	-.191
Ins.G2	-.015	-.101	-.160	.329	.126	-.008
Ins.G3	.240	.013	.332	.155	-.359	-.282
Ins.G4	.035	.105	-.125	-.303	.309	.121
Ins.G5	-.154	-.119	-.201	-.234	-.060	-.007
IntR.1	-.033	-.129	-.175	-.193	-.408	.436
IntR.2	-.203	.155	.150	-.223	.397	-.376
IntR.3	.053	.273	-.214	.452	-.077	.204

Looking at the canonical variables: P1 and P2 with respect to the items of each independent variables, we can identify the items correlated with the canonical variable above ±0.15. Through this observation, we can conclude that the items included by the canonical variables from the dependent variable and independent variables.

Here, looking at the *customer satisfaction items*, only two items: *"Polite, knowledgeable and skilled staff''* (Cus.T2), and *"Searching for the best possible solution''*(Cus.T4) have a strong correlation with canonical variable :(P1). . With P1, *''Polite, knowledgeable and skilled staff''* (Cus.T2) has a strongest negative correlation whereas ''*Searching for the best possible solution''* (Cus.T4) has acceptable positive correlation. In second canonical variable:(P2), *''Staff* *confidentiality and trust''* (Cus.T1)*, ''Polite, knowledgeable and skilled staff''*(Cus.T2), *''Searching for the best possible solution''*(Cus.T4) *and ''Effectiveness in managing customer's complaints*''(Cus.T5) have observable correlation. Likewise, with the P2 canonical variables, *"Staff confidentiality and trust"* (Cus.T1) and *''Effectiveness in managing customer's complaints*'' (Cus.T5) have strongest positive correlation. On the contrary*, ''Polite, knowledgeable and skilled staff''* (Cus.T2) and *''Searching for the best possible solution"* (Cus.T4) have negative correlation. Although *"Polite, knowledgeable and skilled staff"* (Cus.T2) has negative correlation with P1 and P2, there is difference in the strength of correlation. Likewise, *''Searching for the best possible solution''* (Cus.T4) is positively correlated with P1 by 0.17 coefficient whereas negatively correlated with P2 by -0.341.

Similarly, considering the *service variable items* and canonical variables, all four items: '*'Spread of branch network''*(serv.1), '*'Sufficient number and well-functioning ATM''*(serv.2)*, ''Sufficient number of bank personnel''*(serv.3), and *''Bank reputation''*(serv.5) of the service variable are negatively correlated with the canonical variable P1. But for a P2 variable, only '*'Spread of branch network''*(serv.1) and *''Sufficient number of bank personnel''*(serv.3), have the correlation coefficient higher than ±0.15. '*'Spread of branch network''*(serv.1) is negatively correlated with P1 and P2, but the strength of correlations is different. Likewise, *''Sufficient number of bank personnel''*(serv.3) negatively correlate with P1 whereas positively correlate with P2 with the correlation coefficient -0.279 and 0.236 respectively.

Referring to the *product variable items* and the canonical variable, P1 does not have the noticeable level of correlation with the product variable items. On the contrary, P2 is positively correlated with the items *''The chance of you becoming a future customer*''(Prod.2) and *"Information about the bank and your loan''.* (Prod.4) whereas negatively correlated with *"Variety in product offerings''*(Prod.3).

Likewise, looking at the canonical variables and *loan covenants items*, only one item *"Financial performance of the loan provider"*(cove.5) is negatively correlated with the P1. But with the P2 *"Your tendency for making risky decision''* (cove.1) is positively correlated with the P2 whereas *"Speed of approval and immediate pay* out''(cove.2), *"Less cost of loan processing*''(cov.3), and *"Financial performance of the loan provider''* (cov.5) are negatively correlated with P2. Although, *"Financial performance of the loan provider''* is negatively correlated with P1 and P2, the strength of correlation with P2 is higher than P1.

In the same way, looking at the *loan installment* and P1 variable, *''Deferral of installments for something unexpected''*(L.ins3) and *''Possibility of partial or total early repayment anytime you* want''(L.ins4) are correlated seemingly with the P1. Although *''Deferral of installments for something unexpected''*(L.ins3) is negatively correlated with P1, *''Possibility of partial or total early repayment anytime you* want''(L.ins4) is positively correlated with P1. Similarly, *''Ability to finance up to maximum value of* property''(L.ins1), *''Deferral of installments for something unexpected''* (L.ins3), *''Possibility of partial or total early repayment anytime you want''* (L.ins4), and '*'Ability to design the amount*''(L.ins5) have an observable correlation coefficient with the P2.. Surprisingly, *''Deferral of installments for something unexpected''*(L.ins3), is negatively correlated with P1 whereas positively correlated with P2. In the same way, *''Possibility of partial or total early repayment anytime you want''*(L.ins4) is positively correlated with P1 whereas negatively correlated with P2.

Noticing the correlation between the *insurance and guarantee* items and canonical variables, only *''Ability to provide an insurance program to protect the payment of installment''* (Ins.G3) and *'Requirement of insurance of the property and premium amount''*(Ins.G5) are noticeably correlated with the P1 whereas not a single item of insurance and guarantee is noticeably correlated with P2. *'Ability to provide an insurance program to protect the payment of installment''*(Ins.G3) is positively correlated whereas *''Requirement of insurance of the property and premium amount''*(Ins.G5) is negatively correlated with canonical variable P1.

Finally looking at *interest rate items* and canonical variables, only *''Stable interest rate till the repayment period''*(IntR.2) has noticeable negative relation with the P1 whereas *''Stable interest rate till the repayment period''*(IntR.2) and *''No penal interest charge for something unexpected''*(IntR3) are positively correlated with P2 fulfilling the minimum observable correlation coefficient i.e.±0.15.

Conclusively, through this canonical correlation statistical method, all the variables items of my study are picked up significantly into two canonical variables: P1 and P2. As explained above, P1 and P2 are two significant canonical variables which include the various items of the dependent and independent variables with respect to the significant correlation coefficients which are different in magnitude. Here, P1 includes ''*increased service quality'' (*Dec2), and ''*market-oriented interest rate''*(Dec7) from the dependent variables whereas *''Polite, knowledgeable and skilled staff''*(Cus.T2)*, ''Searching for the best possible solution''*(Cus.T4) *'Spread of branch* *network''*(Serv.1), '*'Sufficient number and well-functioning ATM''*(Serv.2), *''Sufficient number of bank personnel''*(Serv.3), *''Bank reputation''*(Serv.5), *''Financial performance of the loan provider''*(Cove.5), *''Deferral of installments for something unexpected''*(L.ins.3), *''Possibility of partial or total early repayment anytime you want''*(L.ins.4), *''Ability to provide an insurance program to protect the payment of installment''*(Ins.G3) ,*''Requirement of insurance of the property and premium amount''*(Ins.G5), and *''No penal interest charge for something unexpected''*(IntR.2) from the independents variables with the noticeable correlation coefficient.

Similarly, the second canonical variable: P2 includes *''satisfaction towards the bank is increased''*(Dec1), ''*increased service quality''(*Dec2) *''products match the requirement''*(Dec3),*''loan covenants are flexible to customers''*(Dec4) and *''Installment is determined by the consent of both bank and customer''*(Dec6) from the dependent variables whereas *''Staff confidentiality and trust''*(Cus.T1), *''Polite, knowledgeable and skilled staff''*(Cus.T2), *''Searching for the best possible solution''*(Cus.T4) , *''Effectiveness in managing customer's complaints*''(Cus.T5), '*'Spread of branch network''*(Serv.1), *''Sufficient number of bank personnel''*(Serv.3), *''The chance of you becoming a future customer''*(Prod.2), *''Variety in product offerings''*(Prod.3), *''Information about the bank and your loan''*(Prod.4), *''Your tendency for making risky decision''*(Cove.1), *''Speed of approval and immediate pay out''*(Cove.2), *''Less cost of loan processing''*(Cove.3),*''Financial performance of the loan provider''*(Cove.5), *''Ability to finance up to maximum value of property''*(L.ins.1), *''Deferral of installments for something unexpected''*(L.ins.3), *''Possibility of partial or total early repayment anytime you want''*(L.ins.4), '*'Ability to design the amount*''(L.ins.5), *''Stable interest rate till the repayment period''*(IntR.2), and *''No penal interest charge for something unexpected''*(IntR.3) from the independent variables.

Finally, although both the canonical variables include the certain same items from two sets of variables, the magnitude and strength of the correlation coefficients are different.

Deriving the canonical correlation model with the noticeable correlation coefficients.

U(p1) = -0.945*(Dec2) + 0.165*(Dec7)

U(p2) =-0.631*(Dec1) + 0.151*(Dec2) - 1.641*(Dec3) +1.853*(Dec4) + 0.590*Dec6

V(P1)=-0.220*(cus.T1)+0.174*(cus.T4)-0.341*(serv.1)-0.384*(serv.2)-0.279*(serv.3)-0.322*(serv.5)-0.186*(cove.5)-0.210*(L.ins3)+0.214*(L.ins4)+0.240*(Ins.G3)-0.154*(Ins.G5)-0.203*(IntR.2)

V(P2)=0.236*(cus.T1)-0.170*(cus.T2)-0.341*(cus.T4)+0.537*(cus.T5)-0.262*(Serv.1)+0.236*(serv3)+0.384*(Prod.2)-0.626*(Prod.3)+0.315*(Prod.4)+0.361*(Cove.1)-0.332*(Cove.2)-0.160*(Cove.3)-0.214*(Cove.5)+0.174*(L.ins.1)+0.518*(L.ins.3)-0.353*(L.ins.4)-0.175*(L.ins.5)+0.155*(IntR.1)-0.273*(IntR.3)

The equation to calculate the value of the canonical correlation is presented below:

Canonical correlation of the ith variable, $þ_i^* = cov(Ui, Vi)\sqrt{var(Ui)var(Vi)}$....................Equ(i)

Now substituting the 'i' with P1 and P2 in equation(i), we get following equations:

$Þ_{(P1)}^* = cov(UP1, VP1)/\sqrt{var(UP1)var(VP1)}$.....................Equ(ii)

$Þ_{(P2)}^* = cov(UP2, VP2)/\sqrt{var(UP2)var(VP2)}$ ....Equ(iii)

5.2 Discussion of the results:

Table5.5 Showing the canonical correlation coefficient of the dependent and independents variables items with the Canonical variable(P1).

Dependent variables Items	Canonical variable (P1)	Independent variables Items	Canonical variable (P1)
Dec2	-0.945	Serv.1	-0.345
		Serv.2	-0.384
		Serv.3	-0.279
		Serv.5	-0.322
Dec7	-0.165	IntR.3	-0.203

In the above table, we can see the loading of the correlation coefficient in canonical variable: P1. This loading of the correlation coefficient represents that there is strong correlation between the "*increased service quality''*(Dec2) item of dependent variable and '*'Spread of branch network''*(serv.1), '*'Sufficient number and well-functioning ATM''*(serv.2), *''Sufficient number of bank personnel''*(serv.3), and *''Bank reputation''*(serv.5) items of service independent variable. These relationships represent that service has positive significant relationship with the loan decision. In the study of Mylonakis et al., (1998), they have found that the most influencing factors for the customers' loan decisions were bank location and quality of services. Similarly, in another study of the Kamakodi & Khan (2008), the bank selection decision of the customer can be divided into 10 parameters based on the importance. Among, those 10 important parameters, secured ATMs, ATMs availability, closeness to work are the three parameters. This study supports the above obtained-result.

Similarly, Frangos et al., (2012) have studied the factors that influence the loan taking decision of the Greek customers. In his study, he found interest rate as a prominent factor that influences the loan taking decision of the customers. Similarly, looking at the table5.5, it can be understood that the interest rate and loan decision have the same kind of correlation magnitude. This correlation represents that there is a positive correlation between interest rate and customer loan decision. Although there is a positive and negative correlation between the set1 variable's items and set2 variables' items in canonical correlation variable P1, those correlations are below the noticeable coefficient values.

Since only the canonical correlation variable: P1 is significant at 99% of confidence level, I have included the noticeable results only from the P1 variables.

CHAPTER-VI: CONCLUSION AND RECOMMENDATION

6.1 Conclusion

With the data analysis and presentation of the research mentioned in the previous chapter, the major conclusions of the study are as follows.

- Despite of the certain bias, the male population of the Kathmandu valley seem active in consuming the loan from BFIs compared to the female respondents.
- Similarly, respondents having age group from 31-40 and 41-50 have more loan accounts in BFIs compared to the respondents at other age groups.
- With the support of previous studies and the collected data analysis, it is found that the married respondents of Kathmandu valley have higher loan account compared to the unmarried respondents.
- In terms of the influence of the loan decision effected by various independent variables such as interest rates, installments, product availability, etc. customers have different major components in each independent variable.
- While making loan taking decision customers prefer to take a loan from commercial banks followed by finance companies, followed by development banks and finally cooperatives.
- In terms of preference for service quality provided by the financial institutions, both customers and banks focused on the spread of branch network of the banks and financial institutions which is obvious. But the sub-variable, sufficient number of bank personnel seems totally opposite in bank and customer responses. Bank has considered sufficient number of the personnel has high impact on the customer loan decision whereas the customer has treated same sub-variable as the lowest influencing item in their loan decision.
- The factor affecting the satisfaction of the customers from the services provided by the banks and financial institutions was most importantly staff and confidentiality and trust towards their loan customers as per both the Customers and Banks.
- Similarly, the major aspect considered by the customers while considering the product available and offered by the banks and financial institutions was basically the information about the financial institutions from which they were intending to take loan and obviously about the loan that they were going to purchase. Surprisingly, the necessity to know the bank personnel is the only sub-variable in this factor which has been ranked differently by

the bank and customer. Customer has given high emphasis to this item whereas the bank has given low emphasis.

- Banks and financial institutions put forward various loan covenants which are attributed to various aspects. Among the various aspect of loan covenants, both customers and bank gave priority to the speed of approval and immediate disbursement of the loan by the bank while putting the less cost of loan processing on the secondary part. Interestingly, in terms of Financial performance of the loan provider, bank has given low effect whereas customer has rated above the moderate effect.
- Similarly, both customers and banks have given the insurance and guarantee condition of the loan lowest point in influencing the customer loan decision. The main reason behind this condition is the tight regulation regarding the insurance and guarantee followed by the banks and financial institutions of Nepal after the mega earthquake 2015.
- The analysis of the priority of the customers overall the independent variables in relation to the loan decision showed that customers gave the highest priority to the availability of products variable followed by satisfaction towards the existing service provided by the banks and financial institutions which in turn followed by quality of service provided by their financial partner, i.e. banks and financial institutions.
- Customers prefer banks and financial institutions providing competitive interest rate with stable interest rate for a longer period time and no penal charge for the occurrence of the unexpected event.
- Customers also placed the satisfaction with the existing service provided by the banks and financial institutions at high priority.
- The view of customers towards the importance of the quality of service provided by BFIs was also not different than that to the service quality.
- The decision-making process of the loan from BFIs was not much affected by the installment variable as BFIs have well defined mechanism for the calculation of the installment on the loan which the customers must agree with banks.
- Further, the condition of the insurance and guarantee requirement is not significant on the loan decision-making process as the insurance of the underlying asset is must for the betterment of both the BFIs and customers while the insurance policy of the borrower may

be genuine on a case to case basis. However, guarantee of the close family members is must for the loan taking process by the customer.

6.2 Recommendations

From the study carried out on the determinants affecting the loan decision of the customers of Kathmandu valley and based on the analysis of the data collected during the study, following recommendations are made.

6.2.1 Product Development

Loan product is the major focus of the customers while making the loan taking decision from various BFIs. Hence, first and foremost BFIs need to develop product that are required by the customers and are demanded more by them. However financial products cannot be that much customized as in case of other real products. Despite, BFIs instead of focusing on push sales strategy should focus on pull sales strategy by designing the loan product that really matches the requirement of the customers, that is collinear with the repayment capacity of the customers and that is innovative as well. Further, BFIs need to impart the information about the product upfront without hiding any information on the charges and commission related to the loan product.

This recommendation has been made on the basis of result obtained from the descriptive analysis of the product offering by the BFIs where customers have focused on the information about the bank and the type of loan they are willing to take from BFIs with the highest mean of 4.76 and from the priority analysis of the independent variables where the mean of the product variable is 4.30 which indicates towards the positive decision of the customer towards taking loan if the product meet their need.

6.2.2 Pricing on the loan products

The market today is extremely competitive and is becoming vigorously competitive day by day. In such a scenario, BFIs need to focus on the pricing aspect of the loan product. The regulatory cap imposed by NRB that all the banks need to maintain an interest rate spread i.e. the difference between the rate on the loans and the rate on the deposit within 5% has also constrained the BFIs to be competitive enough to maintain their customer base. On the other hand, NRB has also restrained BFIs from charging the commission on the loan product maintaining a difference of 0.25% of the loan amount only. Therefore, in such a scenario o regulatory restriction and the concentrated market of Kathmandu valley BFIs need to be more cautious while pricing their loan product as we have already found from the analysis that the significance of the relationship between interest rate is high. As well as the customer seems positive towards the loan decision if the interest is fair enough.

6.2.3 Customer and service-oriented business

Although BFIs provide a better pricing to the customers on their loan and other product in order to increase their customer base and maintain their customer base, many of the BFIs fail to retain their customer simply because of the quality of the service they provide to their customers and the satisfaction the customers perceive from their service. As already discussed above, BFs is need to be more cautious on their pricing on loan products which is very much imperative and obligatory because every BFIs offer the best price they can provide to their customers. In such situation, as already BFIs are operating within a maximum spread rate of 5% only, the only way to increase and retain the customer base is by providing quality service to the customers and increasing as well as maintaining their satisfaction level which is also supported by the analysis result that we have deduced from our research analysis.

6.3 Future Research

This study provided a good review of the existing research work on the factors that effect the loan taking decision of the customers from BFIs. This gives a strong theoretical foundation for future academic research. Future research can be extended in several ways and some of the possibilities are enumerated below:

1) The research has been focused on the Kathmandu valley only where the population is of high density and the demographic status is also different from that outside the valley. Therefore, an attempt to study the factors effecting the loan decision of the customers outside Kathmandu valley can be a worthwhile study to be carried out.

2) The banking and financial institutions are in the verge of merge and acquisition which shows that the market is becoming more competitive. Hence, the impact of emerging competition on customers' behavior/behavioral changes in loan taking decision needs to be studied further.

3) Developments in technology influence the loan taking decision with respect of the development of new products as well as conducting the existing business in new way. Hence, the impact of technology on financial behavior of the customer is another potential area for close study.

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Appendix 1: Reflective note

This study is about the customers' behaviours regarding the loan decision of the Kathmandu city of Nepal. I have tried to explain the different determinants of the loan and their role in affecting the customers' behaviours while making the loan decision. Additionally, many literature reviews and the previous studies are presented in this study to support the study. Apart from the customer perspective, I have included the banks' responses too. The inclusion of this two parties: bank and customer, helped to identify the similarities and deviation between their responses towards the factors derived from previous studies, theories, and literature. This study will help the financial sector to identify the factors that the customers consider while making a loan decision.

National trends

Nepal is a developing nation lies between two big countries, India and China. Since Nepal has an open border with India, the influence of Indian economy is high in Nepalese economy. Similarly, as the Chinese market is saturating, Nepal is becoming the new niche market for China. Concerning the information of the Nepal Government, both the China and India have surveyed to join Nepal with train tracks which can be the milestone for the emerging of Nepal. Apart from this, after the liberalization of the financial institution by the Central bank of Nepal in the 1980s, numerous financial reforms were done. Recently, there is 28 commercial banks, 70 development banks, more than 75 financial companies and several cooperatives. As per the data of the Central bank of Nepal, access to the financial services by the rural customers are rapidly increasing because of the various economic reforms. The Central bank implemented the merger and acquisition Act in 2011 A.D to strengthen the overall aspect of financial institutions. This Act was one of the most significant achievements for the Nepalese government to manage the various financial institutions having poor capital and capabilities. Previously, political instability was the major problem of Nepal which has affected every sector of Nepal. Recently, Nepal succeeds to achieve the political stability. All the above mentions achievements and conditions represent the favourable conditions for flourishing the Nepalese financial institutions.

In this study, mainly the seven factors are introduced as the independent variables which influence the customers' loan behaviour. They are service quality, customer satisfaction, loan installments, loan covenants, interest rate, Insurance & guarantee, and products. Each independent variable have five sub-variables except the one variable, interest rate. All these factors are derived from the previous studies, literature reviews and theories. Although all these factors influence in the loan taking behaviour of the customer in other parts of the world, this study shows some of the factors are not relevant in Nepalese context.

Globalization

After the implementation of the banking liberalization Act, Nepal first started to involve in foreign financial activities. As a result, lots of joint venture banks and financial institutions established. Still, they are operating their financial activities in Nepalese market profitably. Mainly, Nepalese bank and financial institutions have joint ventures with South Asian countries' Banks and financial institutions such as state bank of India, IFIC Bank Limited of Bangladesh, Punjab National Bank of India, Habib Bank Limited of Pakistan, etc. Even the global banking institution, the standard chartered bank is operating its financial services in Nepalese market. These joint ventures show the presence of Nepalese financial market in the international platform. As Nepal is the member of the World Bank and World trade organization, it committed for the open financial service sector to the banking service for the international banks. It shows the feasibility for the foreign bank to enter into the Nepalese banking sectors as Nepal can be the profitable niche market for the foreign banks and financial institutions since Nepal is emerging with its neighbour. As per the data of the Central Bank of Nepal, 2017, remittance has covered 31.2% of national GDP. It shows the monetary activities of Nepal with foreign nations. It is only possible with the help of the banks and financial institutions. Almost more than 50% youth of Nepal are in the foreign country for the employment and study. This figure shows how much important is the connection of national BFIS with the international and global BFIS for the Nepalese.

Innovation

With the changing time, the global banking sectors are updating with the innovations. To modernize the banking system, business plans, and customer services, banks and financial institution are adopting new concepts, ideas, and technologies. Similarly, there are drastic changes in the banking services and products with the help of the Information and technology innovation in the global banking sector. So, to fascinate more customer, the Nepalese banking sector should adopt precisely the new information and technology. Still, the Nepalese banking customers are consuming the banking service through their physical appearance at the bank. Although it is possible to do banking transactions such as deposits, loan applications, transfer, withdraw, bills payment, mobile recharge, etc. through the internet in short time. Despite these facts, with the use of the information and technologies, Nepalese banking sectors can attract more customers with minimum efforts.

Responsibility

All the banks and financial institutions are responsible for providing the financial services to the people of the nation. Solely, profit should not be the primary motive of the BFIS. Customers want to consume the products and services conveniently and promptly at a competitive price. So, the BFIS are responsible for fulfilling the financial need of the customer. Similar, to select the loan application BFIS should not be biased. In the context of Nepal, reference works a lot in loan sanction than the other factors. The central bank is responsible for controlling such trends with specific regulations. In order to understand the BFIS of Nepal should do the needs and consumption behaviour of customers, this sort of study.

Likewise, concerning the ethics, it is applied to both customers and BFIS. A bank should provide the loan to the customer who fulfils the minimum requirement. Providing the credit with the greed of commission, personal relation, etc. are against the business ethics. The performance of the bank should be transparent. Similarly, doing business mainly for the profit is against the social ethics. Corporate social responsibility should include the plans of BFIS with their business responsibility. This sort of things should be supervised and controlled by the respected body of the nation. Additionally, concerning the customer ethics for the loan consumption, the customer should provide the genuine documents and proof to the bank as well as repay the principal and interest amount in time. This sort of behaviour support to establish the ethical values in the bank loan consumption.

Finally, I got an opportunity to learn about internationalization, innovation, responsibility and ethics with the help of the MSc. In business administration at the University of Agder. I have presented specific relevant knowledge of mine considering the topics as mentioned above in my thesis, ‘’ Factors affecting the loan behaviour of the customer of Kathmandu’’.

APPENDIX 2: Research questionnaire for Customer

"Determinants of Loan Decision of Customers in the capital city of Nepal"

Dear respondents, this research "Determinants of Loan Decision of Customers in the Kathmandu Valley" is being carried out as a part of part of my MSc. in Business Administration course (University of Agder, Norway). This study helps to identify determinants of loan decisions of customers. The results obtained will be useful in making various loan decisions. Therefore, I humbly request you to co-operate in carrying out this study by filling up the questionnaire correctly and sincerely which will help me to complete my research successfully. I would like to assure you that all the data are for purely academic purpose and will be treated highly confidential.

Demographics

1.Gender	No. of Response
Male	130
Female	89

2.Marital status	No of response
Single	83
Married	136

3. Age Status	No. of respondent
20-30	66
31-40	72
41-50	66
51-60	15

4. Academic qualification	No. of Respondent
Higher secondary	39
University	138
Post graduate	42

5.Employment	No. of Respondent
Private	130
Public	27
Self-employed	39

Others	23

6.Monthly Income (Rs)	No. of Respondent
Less than 25000	13
26000-45000	113
46000-65000	43
66000-85000	45
86000 and above	5

Questions:

1. **Do you have loan account with any financial institution?**

    a. Yes 81

    b. No 138

2. **Which type of financial institution do you have loan account with? If Yes choose the following options. If No which one does you select to open an account from the following options?**

Banks and financial institutions	No. of response
a. Commercial banks	143
b. Development Banks	30
c. Finance Companies	40
d. Co-operatives	6

3. **What type of loan do you**

    - have with that financial institution? (If Yes) (Multiple Choice)

    - like to have with that financial institution? (If No)

Types of loan	No. of responses
a. Business Loan	53

b. Auto loan 83

c. Home loan 52

d. Education Loan 31

4. Please express your opinion regarding the influence of the below mentioned factors in loan decision. (Customer treatment satisfaction)

S. No.	Factors	High Effect	Moderate Effect	Neutral	Less Effect	No Effect
A	Staff confidentiality and trust	195	18	6	-	-
B	Polite, knowledgeable and skilled staff	81	113	22	3	-
C	Professionalism and credibility of staff	14	35	123	43	4
D	Searching for the best possible solution	59	97	51	12	-
E	Effectiveness in managing customer's complaints	82	112	21	4	-

5. Please express your opinion regarding the influence of the below mentioned factors in loan decision. (service)

S. No.	Factors	High Effect	Moderate Effect	Neutral	Less Effect	No Effect
A	Spread of branch network	190	29	-	-	-
B	Sufficient number and well-functioning ATM	48	130	39	2	-
C	Satisfaction with the layout and atmosphere	10	69	114	24	2
D	Sufficient number of bank personnel	-	10	125	65	19
E	Bank reputation	144	71	4	-	-

6. Please express your opinion regarding the influence of the below mentioned factors in loan decision. (product)

S. No.	Factors	High Effect	Moderate Effect	Neutral	Less Effect	No Effect

A	The necessity to know the bank personnel	78	79	52	10	-
B	The chance of you becoming a future customer	24	83	96	15	1
C	Variety in product offerings	53	120	38	7	1
D	Information about the bank and your loan	172	42	4	1	-
E	Information about other services of the bank	57	109	44	8	1

7. Please express your opinion regarding the influence of the below mentioned factors in loan decision. (loan Covenants)

S. No.	Factors	High Effect	Moderate Effect	Neutral	Less Effect	No Effect
A	Your tendency for making risky decision	11	112	95	1	-
B	Speed of approval and immediate pay out	178	40	1	-	-
C	Less cost of loan processing	124	91	3	1	-
D	Influence of others	1	32	122	52	12
E	Financial performance of the loan provider	82	107	30	-	-

8. Please express your opinion regarding the influence of the below mentioned factors in loan decision. (loan installment)

S. No.	Factors	High Effect	Moderate Effect	Neutral	Less Effect	No Effect
A	Ability to finance up to maximum value of property	184	27	6	2	-
B	Low installments over a long period of time	115	74	23	5	2
C	Deferral of installments for something unexpected	42	74	84	19	-
D	Possibility of partial or total early repayment anytime you want	51	84	65	16	3
E	Ability to design the amount and frequency of installments based on your own capabilities	196	16	2	5	-

9. Please express your opinion regarding the influence of the below mentioned factors in loan decision. (insurance and guarantee)

S. No.	Factors	High Effect	Moderate Effect	Neutral	Less Effect	No Effect
A	No need of underwriting property (housing)	25	66	101	22	5
B	Existence of one or more guarantors	6	23	71	102	17
C	Ability to provide an insurance program to protect the payment of installment	11	16	52	110	30
D	Requirement of insurance of the borrower	18	49	77	57	18
E	Requirement of insurance of the property and premium amount	16	25	31	101	46

10. Please express your opinion regarding the influence of the below mentioned factors in loan decision. (interest rate)

S. No.	Factors	High Effect	Moderate Effect	Neutral	Less Effect	No Effect
A	Competitive interest rates on the loan	207	11	1	-	-
B	Stable interest rate till the repayment period	164	46	8	1	-
C	No penal interest charge for something unexpected	3	78	118	18	2

11. Please express your opinion whether you will take loan from bank/financial institution if under the following conditions.

S. No.	Factors	Take	Probably Take	Might Take	Probably Not	Not
A	Service Quality is increased	121	59	33	4	2
B	Your satisfaction towards the bank is increased	153	64	2	-	-

C	Installment is determined by the consent of both bank and customer	44	79	64	21	11
D	Loan covenants are made favorable to customer	65	78	55	15	6
E	Interest rate is market oriented.	146	53	14	3	2
F	Insurance/guarantee of borrower is not required	8	60	79	56	16
G	Product match your requirement	171	37	7	2	1

Thank You!

Appendix 3: Research Questionnaire for Bank personnel

"Determinants of Loan Decision of Customers in the Capital city of Nepal"

Interview questionnaire for the service provider.

Dear respondents, this research "Determinants of Loan Decision of Customers in the Kathmandu Valley" is being carried out as a part of part of my MSc. in Business Administration course (University of Agder, Norway). This study helps to identify determinants of loan decisions of customers and the determinants that are considered by the bank to attract the loan customers. The results obtained will be useful in making various loan selection. Therefore, I humbly request you to co-operate in carrying out this study by filling up the questionnaire correctly and sincerely which will help me to complete my research successfully. I would like to assure you that all the data are for purely academic purpose and will be treated highly confidential.

1. Which banking Class does your bank belongs?
2. How do the loan department of your bank effect your whole banking system?
3. Which type of loan do you encounter the most?
4. What are the factors that your bank considered to select the potential loan customer?
5. Do these factors are enough to identify the good loan customer?
6. Have you ever segmented your loan customer? If yes, how have you segment them?
7. Has your bank ever done research to understand the factors that the loan customers consider

before applying for the loan?

8. How do you provide the information regarding your loan products to your customers?
9. How does your bank determine the interest rate?

1. Please express your opinion regarding the influence of the below mentioned factors in loan decision of customer. (Customer treatment satisfaction)

S. No.	**Factors**	**High Effect**	**Moderate Effect**	**Neutral**	**Less Effect**	**No Effect**
A	Staff confidentiality and trust					
A	Polite, knowledgeable and skilled staff					
C	Professionalism and credibility of staff					
D	Searching for the best possible solution					
E	Effectiveness in managing customer's complaints					

2. Please express your opinion regarding the influence of the below mentioned factors in loan decision of customer. (service)

S. No.	**Factors**	**High Effect**	**Moderate Effect**	**Neutral**	**Less Effect**	**No Effect**
A	Spread of branch network					
B	Sufficient number and well-functioning ATM					
C	Satisfaction with the layout and atmosphere					
D	Sufficient number of bank personnel					
E	Bank reputation					

3. Please express your opinion regarding the influence of the below mentioned factors in loan decision of customer. (product)

S. No.	**Factors**	**High Effect**	**Moderate Effect**	**Neutral**	**Less Effect**	**No Effect**

A	The necessity to know the bank personnel					
B	The chance of you becoming a future customer					
C	Variety in product offerings					
D	Information about the bank and your loan					
E	Information about other services of the bank					

4. Please express your opinion regarding the influence of the below mentioned factors in loan decision of customer. (loan Covenants)

S. No.	**Factors**	**High Effect**	**Moderate Effect**	**Neutral**	**Less Effect**	**No Effect**
A	Your tendency for making risky decision					
B	Speed of approval and immediate pay out					
C	Less cost of loan processing					
D	Influence of others					
E	Financial performance of the loan provider					

5. Please express your opinion regarding the influence of the below mentioned factors in loan decision of customer. (loan installment)

S. No.	**Factors**	**High Effect**	**Moderate Effect**	**Neutral**	**Less Effect**	**No Effect**
A	Ability to finance up to maximum value of property					
B	Low installments over a long period of time					
C	Deferral of installments for something unexpected					
D	Possibility of partial or total early repayment anytime you want					

E	Ability to design the amount and frequency of installments based on your own capabilities					

6. Please express your opinion regarding the influence of the below mentioned factors in loan decision of customer. (insurance and guarantee)

S. No.	**Factors**	**High Effect**	**Moderate Effect**	**Neutral**	**Less Effect**	**No Effect**
A	No need of underwriting property (housing)					
B	Existence of one or more guarantors					
C	Ability to provide an insurance program to protect the payment of installment					
D	Requirement of insurance of the borrower					
E	Requirement of insurance of the property and premium amount					

7. Please express your opinion regarding the influence of the below mentioned factors in loan decision of customer. (interest rate)

S. No.	**Factors**	**High Effect**	**Moderate Effect**	**Neutral**	**Less Effect**	**No Effect**
A	Competitive interest rates on the loan					
B	Stable interest rate till the repayment period					
C	No penal interest charge for something unexpected					

Thank You!

Appendix 4: SPSS output of the Canonical Correlation Analysis

Output1.

Canonical Correlations Settings	
	Values
Set 1 Variables	Dec1 Dec2 Dec3 Dec4 Dec6 Dec7
Set 2 Variables	Cus.T1 Cus.T2 Cus.T3 Cus.T4 Cus.T5 Serv.1 Serv.2 Serv.3 serv.5 Prod.1 Prod.2 Prod.3 Prod.4 Prod.5 Cove.1 Cove.2 Cove.3 Cove.5 L.ins.1 L.ins.2 L.ins.3 L.ins.4 L.ins.5 Ins.G1 Ins.G2 Ins.G3 Ins.G4 Ins.G5 IntR.1 IntR.2 IntR.3
Centered Dataset	None
Scoring Syntax	None
Correlations Used for Scoring	6

Output 2.

Canonical Correlations

	Correlation	Eigenvalue	Wilks Statistic	F	Num D.F	Denom D.F.	Sig.
1	.689	.903	.215	1.733	186.000	1083.128	.000
2	.515	.362	.409	1.203	150.000	910.038	.061
3	.462	.271	.557	1.005	116.000	733.727	.473
4	.402	.193	.708	.809	84.000	554.314	.886
5	.304	.102	.844	.609	54.000	372.000	.986
6	.264	.075	.930	.540	26.000	187.000	.967

H0 for Wilks test is that the correlations in the current and following rows are zero

Output 3.

Set 1 Standardized Canonical Correlation Coefficients						
Variable	1	2	3	4	5	6
Dec1	-.078	-.631	-1.253	.138	-.549	.509
Dec2	-.945	.151	-.003	-.172	-.154	-.378
Dec3	.079	-1.641	1.179	-.913	.095	.002
Dec4	.040	1.853	-.450	.109	1.292	.024
Dec6	.076	.590	.265	-.239	-1.028	.156
Dec7	-.165	.089	-.227	-.359	-.116	-.939

Output 4.

Set 2 Standardized Canonical Correlation Coefficients						
Variable	1	2	3	4	5	6
Cus.T1	.135	.236	.120	-.140	.210	-.188
Cus.T2	-.220	-.170	-.174	-.427	-.086	.025
Cus.T3	-.006	.116	.282	.153	.198	-.116
Cus.T4	.174	-.341	.263	-.180	-.234	-.237
Cus.T5	.093	.537	-.143	.090	.253	-.126
Serv.1	-.341	-.262	-.241	.222	.232	-.063
Serv.2	-.384	.063	-.091	.305	-.002	-.017
Serv.3	-.279	.236	.053	-.548	-.056	-.053
serv.5	-.322	-.041	.590	-.051	-.214	.254
Prod.1	.002	.083	-.292	.096	-.354	.175
Prod.2	.036	.384	-.043	-.153	.120	-.360
Prod.3	.048	-.626	-.263	-.357	.152	.076
Prod.4	-.042	.315	.154	-.074	-.402	.182
Prod.5	-.117	.084	.018	.067	-.111	-.195
Cove.1	.072	.361	-.209	.030	.132	.195
Cove.2	-.026	-.332	-.047	.491	.125	.145
Cove.3	.117	-.160	-.102	-.409	.110	.022
Cove.5	-.186	-.214	.196	.171	-.657	-.489
L.ins.1	.004	.174	-.289	-.001	.141	-.126
L.ins.2	.018	.011	-.072	.359	.498	-.106
L.ins.3	-.210	.518	.094	-.353	-.305	.419
L.ins.4	.214	-.353	.020	.122	-.260	-.144
L.ins.5	.050	-.175	.502	-.166	.097	-.010
Ins.G1	-.053	.134	-.271	-.101	.055	-.191
Ins.G2	-.015	-.101	-.160	.329	.126	-.008

Ins.G3	.240	.013	.332	.155	-.359	-.282
Ins.G4	.035	.105	-.125	-.303	.309	.121
Ins.G5	-.154	-.119	-.201	-.234	-.060	-.007
IntR.1	-.033	-.129	-.175	-.193	-.408	.436
IntR.2	-.203	.155	.150	-.223	.397	-.376
IntR.3	.053	.273	-.214	.452	-.077	.204

Output 5.

Set 1 Unstandardized Canonical Correlation Coefficients						
Variable	1	2	3	4	5	6
Dec1	-.091	-.730	-1.450	.160	-.635	.589
Dec2	-1.955	.312	-.006	-.355	-.319	-.782
Dec3	.074	-1.533	1.102	-.853	.089	.002
Dec4	.039	1.814	-.440	.107	1.265	.023
Dec6	.077	.600	.269	-.242	-1.044	.159
Dec7	.048	.026	-.066	-.104	-.034	-.272

Output 6.

Set 2 Unstandardized Canonical Correlation Coefficients						
Variable	1	2	3	4	5	6
Cus.T1	.323	.567	.287	-.335	.503	-.451
Cus.T2	-.321	-.248	-.254	-.624	-.126	.037
Cus.T3	-.007	.140	.341	.184	.239	-.140
Cus.T4	.205	-.403	.310	-.212	-.276	-.280
Cus.T5	.133	.769	-.205	.129	.363	-.181
Serv.1	-1.005	-.773	-.708	.654	.682	-.185
Serv.2	-.582	.095	-.137	.462	-.003	-.025
Serv.3	-.369	.313	.071	-.727	-.074	-.070
serv.5	-.622	-.079	1.140	-.099	-.413	.491
Prod.1	.002	.094	-.331	.108	-.401	.199
Prod.2	.045	.482	-.054	-.192	.151	-.452
Prod.3	.063	-.817	-.343	-.466	.198	.100

Prod.4	-.085	.631	.309	-.148	-.807	.365
Prod.5	-.145	.104	.022	.083	-.138	-.242
Cove.1	.121	.611	-.353	.052	.223	.329
Cove.2	-.065	-.818	-.116	1.210	.307	.357
Cove.3	.212	-.291	-.184	-.742	.199	.040
Cove.5	-.276	-.316	.289	.253	-.972	-.724
L.ins.1	.008	.332	-.553	-.002	.270	-.241
L.ins.2	.022	.013	-.087	.433	.601	-.128
L.ins.3	-.236	.582	.105	-.396	-.342	.470
L.ins.4	.228	-.375	.022	.129	-.276	-.153
L.ins.5	.092	-.324	.930	-.308	.180	-.019
Ins.G1	-.059	.149	-.302	-.113	.061	-.213
Ins.G2	-.017	-.114	-.181	.372	.143	-.009
Ins.G3	.244	.013	.338	.158	-.366	-.287
Ins.G4	.033	.098	-.117	-.283	.289	.113
Ins.G5	-.133	-.104	-.174	-.203	-.052	-.006
IntR.1	-.129	-.505	-.687	-.756	-1.598	1.707
IntR.2	-.365	.277	.269	-.400	.713	-.675
IntR.3	.079	.406	-.319	.673	-.115	.303

Output 7.

Set 1 Canonical Loadings						
Variable	1	2	3	4	5	6
Dec1	-.049	-.107	-.645	-.647	-.022	.388
Dec2	-.978	.045	-.010	-.181	-.021	-.094
Dec3	-.009	-.095	-.013	-.920	.204	.319
Dec4	-.003	.287	-.240	-.791	.339	.345
Dec6	.124	.403	.081	-.660	-.504	.355
Dec7	.388	-.002	-.338	-.410	-.079	-.749

Output 8.

Set 2 Canonical Loadings						
Variable	1	2	3	4	5	6

Cus.T1	-.161	-.040	.158	-.256	.244	-.231
Cus.T2	-.296	-.145	-.069	-.292	.002	-.431
Cus.T3	.090	.120	.293	-.025	.080	-.364
Cus.T4	.125	-.146	.253	-.186	-.115	-.306
Cus.T5	-.104	.057	.073	-.081	-.043	-.439
Serv.1	-.594	-.226	.080	.063	.161	-.096
Serv.2	-.727	.064	-.078	.112	-.017	.034
Serv.3	-.504	.286	-.068	-.284	-.002	.124
serv.5	-.663	-.087	.339	-.088	-.078	.061
Prod.1	-.056	.023	-.217	-.091	-.474	-.139
Prod.2	-.016	.204	-.112	-.176	-.081	-.448
Prod.3	-.119	-.377	-.281	-.350	-.047	-.216
Prod.4	-.101	.094	-.057	-.162	-.386	-.076
Prod.5	-.100	.032	.039	-.058	-.122	-.442
Cove.1	-.039	.229	-.203	-.004	-.062	-.140
Cove.2	-.049	-.237	-.129	.129	.068	-.160
Cove.3	-.083	-.143	-.156	-.117	-.076	-.222
Cove.5	-.186	-.128	-.073	.148	-.354	-.568
L.ins.1	-.110	.078	-.051	-.151	.140	-.201
L.ins.2	-.032	.008	.018	-.023	.105	-.299
L.ins.3	.185	.128	.134	-.102	-.028	.029
L.ins.4	.203	-.083	.071	-.175	-.151	-.140
L.ins.5	.013	-.087	.334	-.143	.142	-.209
Ins.G1	.018	.077	-.392	-.052	-.041	-.211
Ins.G2	.035	.020	-.422	.155	-.030	-.277
Ins.G3	.181	.112	-.284	-.007	-.223	-.391
Ins.G4	.244	.057	-.275	-.209	.082	-.021
Ins.G5	.043	-.019	-.451	-.105	-.172	-.329
IntR.1	-.087	-.031	-.130	-.225	-.066	.093
IntR.2	-.152	.031	-.130	-.108	.119	-.217
IntR.3	-.122	.162	-.275	.176	-.009	.005

Output 9.

Set 1 Cross Loadings						
Variable	1	2	3	4	5	6
Dec1	-.034	-.055	-.298	-.260	-.007	.102
Dec2	-.674	.023	-.005	-.073	-.006	-.025
Dec3	-.006	-.049	-.006	-.370	.062	.084

Dec4	-.002	.148	-.111	-.318	.103	.091
Dec6	.085	.208	.038	-.265	-.153	.094
Dec7	.267	-.001	-.156	-.165	-.024	-.198

Output 10.

Set 2 Cross Loadings						
Variable	1	2	3	4	5	6
Cus.T1	-.111	-.021	.073	-.103	.074	-.061
Cus.T2	-.204	-.075	-.032	-.118	.000	-.114
Cus.T3	.062	.062	.136	-.010	.024	-.096
Cus.T4	.086	-.075	.117	-.075	-.035	-.081
Cus.T5	-.071	.030	.034	-.033	-.013	-.116
Serv.1	-.409	-.116	.037	.025	.049	-.025
Serv.2	-.501	.033	-.036	.045	-.005	.009
Serv.3	-.348	.147	-.032	-.114	-.001	.033
serv.5	-.457	-.045	.156	-.035	-.024	.016
Prod.1	-.039	.012	-.100	-.037	-.144	-.037
Prod.2	-.011	.105	-.052	-.071	-.025	-.119
Prod.3	-.082	-.194	-.130	-.141	-.014	-.057
Prod.4	-.070	.049	-.027	-.065	-.117	-.020
Prod.5	-.069	.017	.018	-.023	-.037	-.117
Cove.1	-.027	.118	-.094	-.002	-.019	-.037
Cove.2	-.034	-.122	-.059	.052	.021	-.042
Cove.3	-.057	-.074	-.072	-.047	-.023	-.059
Cove.5	-.128	-.066	-.034	.060	-.108	-.150
L.ins.1	-.076	.040	-.024	-.061	.043	-.053
L.ins.2	-.022	.004	.008	-.009	.032	-.079
L.ins.3	.128	.066	.062	-.041	-.009	.008
L.ins.4	.140	-.043	.033	-.071	-.046	-.037
L.ins.5	.009	-.045	.154	-.057	.043	-.055
Ins.G1	.012	.040	-.181	-.021	-.012	-.056
Ins.G2	.024	.011	-.195	.063	-.009	-.073
Ins.G3	.124	.058	-.131	-.003	-.068	-.103
Ins.G4	.168	.030	-.127	-.084	.025	-.006
Ins.G5	.029	-.010	-.208	-.042	-.052	-.087
IntR.1	-.060	-.016	-.060	-.091	-.020	.025
IntR.2	-.105	.016	-.060	-.043	.036	-.057
IntR.3	-.084	.084	-.127	.071	-.003	.001

Output 11.

Proportion of Variance Explained				
Canonical Variable	Set 1 by Self	Set 1 by Set 2	Set 2 by Self	Set 2 by Set 1
1	.187	.089	.066	.031
2	.045	.012	.020	.005
3	.099	.021	.048	.010
4	.421	.068	.026	.004
5	.070	.006	.027	.002
6	.178	.012	.071	.005