**Nepalese Journal of Management Research**
**ISSN 2738-9618 (Print), ISSN 2738 -9626 (Online) Website: http://balkumaricollege.edu.np/journal**
**Volume : 5 January 2025, Page No. 47-56**

# Factors Influencing Customers' Borrowing Decisions in Commercial Banks

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## ABSTRACT

This study examines the determinants of borrowing decisions of customers in commercial banks using survey responses from 384 participants analyzed through mean, standard deviation, correlation, and multiple regression. The results highlight that bank satisfaction, service quality, interest rates, loan installments, loan covenants, and insurance guarantees significantly impact borrowing behavior, with customer satisfaction and service quality being the most influential. The findings underscore the importance of trust, affordability, and flexibility in shaping borrowing decisions. These insights provide valuable implications for banks to enhance customer experience, policymakers to promote financial inclusion, and researchers to explore borrowing behavior in developing economies further. The study also identifies areas for future research, including the role of digital banking, financial literacy, and sustainable financial products in influencing borrowing behavior.

**Keywords**: Borrowing decisions, service quality, interest rate, bank satisfaction, loan covenants, loan installment, insurance, commercial banks.

## Introduction

The role of credit is widely regarded as fundamental to economic growth and financial stability. Credit refers to the total amount of funds provided by commercial banks to individuals, businesses, and government entities. Commercial banks act as financial intermediaries, collecting funds from the surplus sector in the form of deposits and redistributing them as loans across various sectors of the economy. Given that commercial banks form a significant portion of total assets within Nepal's banking system, and that credit extension is one of their primary functions, understanding the determinants of their lending behavior is essential.

Credit typically represents the largest share of a bank's assets, and the interest income generated from these loans constitutes a major source of revenue. However, lending carries inherent risks and can significantly influence a bank's profitability, liquidity, and solvency. The quality of a bank's credit portfolio is a key indicator of its stability and the degree of risk borne by its depositors and creditors. Poor management of loan portfolios is a leading cause of liquidity crises and bank failures globally. While growth in credit can stimulate investment and economic activity, excessive credit expansion may undermine financial stability by increasing prudential risks at both the micro and macro levels (Igan and Pinheiro, 2011).

The lending behavior of banks is shaped by various factors, including the type of bank, its capital and deposit base, deposit density, interest rates, exchange rates, inflation, investment portfolios, liquidity, and fiscal and monetary policies. Additionally, regulatory guidelines, internal policies, and non-economic factors also play significant roles. While both supply-side and demand-side factors influence bank lending behavior, most of the earlier studies have predominantly focused on supply-side factors, leaving demand-side aspects underexplored. Therefore, this study aims to investigate customers' perspectives on bank borrowing behavior.

In Nepal, borrowing behavior of customers remains a critical issue for both banks and consumers, especially with the growing competition among financial institutions. With 20 commercial banks, 17 development banks, and numerous financial entities and cooperatives in operation, institutions often face challenges in understanding the genuine needs of clients, resulting in high loan default rates. Chitwan, a key commercial hub, has witnessed increasing demand for personal and business loans, further intensifying the need for financial institutions to align their products with consumer preferences. Despite this, limited research has been conducted to explore the specific factors that influence borrowing decisions in this region. This study seeks to fill that gap by investigating elements such as loan policies, interest rates, service quality, and their impact on consumer borrowing behavior in commercial banks.

This research builds on prior studies that highlight the importance of customer satisfaction, service quality, and corporate image in shaping borrowing behavior. It seeks to answer critical questions about the relationship between bank practices—such as loan procedures, product features, and client relationships—and loan purchase decisions. By addressing these questions, the study aims to provide practical recommendations for banks to refine their marketing strategies, personalize financial solutions, and enhance their competitiveness.

Furthermore, the research underscores the challenges faced by financial institutions in balancing client needs with organizational objectives, emphasizing the necessity of adopting consumer-centric approaches to reduce loan defaults and sustain growth in Nepal's evolving financial sector. Understanding loan purchasing behavior is essential for financial institutions seeking to tailor their services and improve customer experiences. This study aims to investigate the factors that influence loan decisions, providing both financial institutions and consumers with valuable insights into the decision-making process. By examining the dynamics of loan demand, the study will enhance our understanding of the factors that impact consumer behavior in the financial services sector. This study primarily aims to examine the relationship between bank relationships, loan procedures, and loan product features on borrowing decisions and analyze the impact of these variables in borrowing decisions of bank customers.

This study is significant for a variety of stakeholders, including financial institutions, consumers, policymakers, and the academic community. For financial institutions operating in the Chitwan district, the insights from this research can help improve their overall business strategy, enhance customer experience, and design competitive, customer-centric loan products. Understanding the factors influencing loan acquisition decisions will allow financial institutions to craft more effective marketing campaigns and strengthen their position in the local market.

The primary objective of this study is to identify the key factors influencing consumer decisions when acquiring loans from financial institutions. By addressing this gap, the research aims to provide valuable insights for financial service providers, helping them better understand their target market, design more attractive loan products, and enhance the overall customer experience. Additionally, the findings of this study are expected to contribute to the broader knowledge on consumer behavior in Nepal's financial services sector, specifically in borrowing decisions. Policymakers and financial regulators may also benefit from these insights when developing strategies to promote financial inclusion and improve credit accessibility in Chitwan and other regions of Nepal. For consumers, the study will provide valuable information about the factors they should consider when deciding on loans, enabling them to make more informed decisions. Increased financial literacy and better decision-making can help consumers navigate the complex landscape of financial services and select loan products that best suit their needs.

For policymakers and financial regulators in Nepal, the findings can inform the development of policies that promote financial inclusion and improve access to credit. By understanding the factors influencing loan acquisition decisions, these stakeholders can create targeted interventions that address the unique needs of the local population, fostering a more stable and efficient financial system.

Finally, the academic community will benefit from the contributions of this research to the understanding of consumer behavior in Nepal's financial services industry. This study can serve as a foundation for future research on loan acquisition decisions, offering a basis for the development of theoretical frameworks and empirical models to further explore this area.

## Literature Review

Borrowing behavior of bank customers has been a subject of considerable academic interest, as it directly impacts the financial performance of institutions and the economic well-being of individuals. Several studies have identified key factors influencing borrowing decisions, including interest rates, loan policies, service quality, and the marketing mix. Athar (2021) argue that customer satisfaction and trust in the financial institution are critical determinants of borrowing behavior. When banks offer transparent loan terms, competitive interest rates, and personalized services, customers are more likely to engage in borrowing. Additionally, demographic variables such as age, income level, and education significantly shape how individuals perceive and interact with loan products, as noted by Yazdanparast, & Alhenawi, (2017).

The corporate image and reputation of a bank also play a crucial role in influencing customer borrowing behavior. Bhatt & Jain (2020) highlighted that a strong corporate image fosters trust and loyalty, which are essential for customers to feel secure when taking loans. On the other hand, unethical practices, such as hidden charges or misleading information, can erode trust and deter potential borrowers. Furthermore, studies have shown that loan accessibility and procedural simplicity are vital factors in shaping borrowing decisions. Customers tend to prefer banks with streamlined loan application processes and minimal bureaucratic hurdles, as these practices enhance convenience and reduce time costs (Smith & Ahmed, 2022). These findings suggest that the operational efficiency of financial institutions is a critical determinant of customer borrowing behavior.

Behavioral aspects, including the psychological and social influences on borrowing, have also been explored. Anderson et al. (1994) emphasize that borrowing decisions are often influenced by social norms, peer recommendations, and perceived financial security. For instance, customers may base their decisions on the borrowing experiences of friends or family members. Furthermore, modern studies indicate that digital banking innovations and financial literacy have altered borrowing patterns, making customers more discerning about loan products. As financial institutions face growing competition, understanding these behavioral dimensions is essential to designing products and services that align with evolving customer needs. This body of literature underscores the multifaceted nature of borrowing behavior and highlights the need for continuous research to address emerging trends and challenges in the banking sector.

The borrowing behavior of bank customers is shaped by a complex interplay of economic, psychological, and institutional factors. Economic factors, such as income levels, employment stability, and market interest rates, are foundational in determining a customer's ability and willingness to borrow. Studies by Yavas, Kaynak, & Kucukemiroglu (2005) highlight the importance of financial literacy in empowering customers to make informed borrowing decisions. Higher levels of financial literacy enable customers to better understand loan terms, compare financial products, and manage repayment schedules, ultimately reducing default risks. Macroeconomic factors, such as inflation, unemployment rates, and GDP growth, also influence borrowing trends, as they affect customers' confidence in their financial stability and future income prospects (Beck & Levine, 2004).

Psychological and behavioral factors have also gained increasing attention in understanding borrowing decisions. The theory of planned behavior (Ajzen, 1991) has been widely applied to explain how attitudes, subjective norms, and perceived control influence borrowing intentions. Psychological biases, such as overconfidence and present bias, often lead customers to underestimate the financial burden of loans, resulting in over-borrowing or missed repayments Yazdanparast, & Alhenawi (2017). Social influences, including peer pressure and cultural norms, can further shape borrowing behavior, as individuals may feel compelled to borrow to maintain a certain lifestyle or status. For instance, in collectivist societies, borrowing decisions are often influenced by familial expectations and obligations, adding another layer of complexity to understanding consumer behavior in such contexts.

Institutional and technological factors are also pivotal in shaping borrowing patterns. The rise of digital banking has significantly transformed how customers access and utilize loan products. Research by Chen et al. (2020) indicates that the adoption of mobile banking and online loan platforms has improved accessibility, reduced transaction costs, and increased transparency, thereby influencing borrowing decisions. Regulatory frameworks also play a crucial role in defining borrowing behavior, as they establish the terms under which financial institutions operate, including loan limits, interest rate caps, and credit reporting requirements. Moreover, trust in financial institutions, shaped by their reputation, service quality, and ethical practices, remains a critical determinant of borrowing behavior. This wide-ranging body of literature highlights the need for an interdisciplinary approach to comprehensively understand the factors influencing borrowing behavior and adapt financial services to meet the evolving needs of customer.

Despite the extensive body of literature on borrowing behavior, several gaps remain that warrant further exploration. Much of the existing research has focused on generic factors such as interest rates, loan policies, and service quality (Rivaldo et al., 2022; Hieu & Thanh, 2020), with limited emphasis on region-specific influences and socio-cultural dynamics that affect borrowing decisions. In the context of Nepal, where financial literacy levels vary significantly and borrowing is often shaped by informal lending practices and cultural norms, there is a lack of studies addressing how these unique factors influence consumer behavior in the formal banking sector. Furthermore, while global studies have examined the impact of financial inclusion and digital banking on borrowing patterns, research specifically targeting Nepalese regions such as Chitwan remains sparse.

Another key gap lies in the insufficient exploration of behavioral and psychological factors affecting borrowing decisions in Nepal. While studies have applied models like the theory of planned behavior (Ajzen, 1991) in other contexts, there is little empirical evidence on how psychological biases, social influences, or trust in financial institutions affect borrowing decisions among Nepalese bank customers. Additionally, the interplay between customer satisfaction, service quality, and loan defaults in the highly competitive Nepalese banking environment remains underexplored. This leaves a critical gap in understanding the nuanced factors that contribute to sustainable lending practices and customer loyalty in the local financial services sector.

## Research Methodology

### Research Design

A descriptive research design was adopted to achieve the study's objectives, focusing on identifying factors affecting the borrowing behavior of bank customers in Nepal. This design allows for describing the characteristics of the population and relationships among variables without manipulating variables under study.

### Population and Sample

The population comprised all loan customers of banks located in the Chitwan district of Nepal. The sample was drawn specifically from customers of Rastriya Banijya Bank and Global IME Bank, the two largest banks in Nepal. Using Cochran's (1963) rule for unknown population sizes, a minimum sample size of 384 was determined to be sufficient. A convenience purposive method was supplemented by random sampling techniques to select participants.

### Data Collection Method

Data was gathered through a structured questionnaire designed to collect primary data. The questionnaire included multiple-choice questions and items measured on a Likert scale to capture respondents' perceptions of factors influencing loan borrowing behavior. Measurement instruments for independent variables were developed based on prior literatures.

### Data Analysis Techniques

The study utilized analytical tools such as mean, standard deviation, correlation analysis, and regression analysis. The mean was used to summarize the central tendency of responses, while the standard deviation measured the variability of responses and gauged the consistency of participant views on borrowing behavior. Correlation analysis assessed the strength and direction of relationships between independent variables and borrowing decisions. Regression analysis was used to quantitatively test the influence of independent variables on borrowing decisions, with the regression model formulated as:

$$Y= a+\beta_1 X_1+\beta_2 X_2+\beta_3 X_3+\beta_4 X_4+\beta_5 X_5+\beta_6 X_6+e_i \quad \text{.......................................(1)}$$

Where,

Y = Borrowing Decisions

$X_1$ = Satisfaction with bank

$X_2$ = Bank Service Quality

$X_3$ = Loan Covenants

$X_4$ = Loan Installment

$X_5$ = Insurance/Guarantees

$X_6$ = Interest Rate

$\beta_i$ = Coefficient of slope of regression model

$e_i$ = error terms

### Research Framework

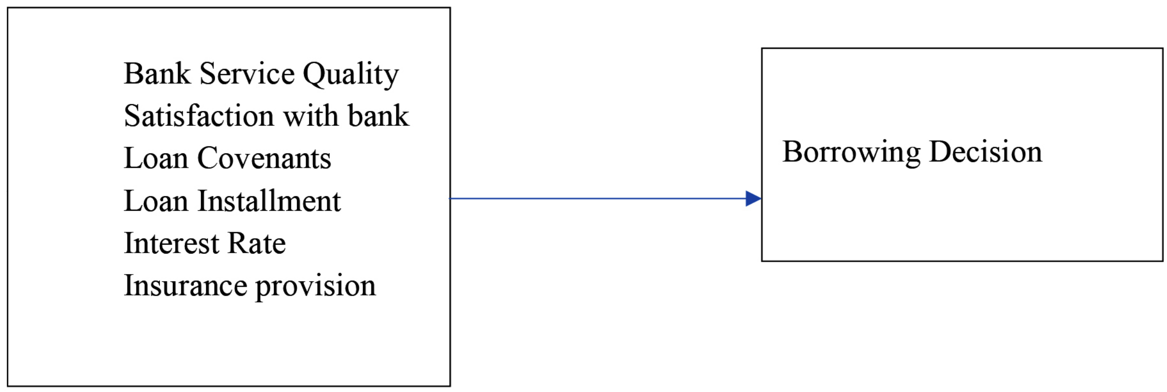
The conceptual framework was derived from previous empirical works (e.g., Rivaldo et al., 2022; Bhatt & Jain, 2020) and highlights the factors impacting borrowing behavior. The research framework includes the dependent variable (Borrowing Decisions) and independent variables such as Satisfaction with Bank, Service Quality, Loan Covenants, Loan Installments, Insurance/Guarantees, and Interest Rate. The measurement scheme of the proposed variables are presented in table 1 as follows;

**Table 1: Measurement scheme of dependent and independent variables**

| Variables | Definition | Measurement |
|---|---|---|
| Bank Satisfaction | The extent to which customers feel their expectations and needs are met by the bank's services. | Measured via Likert scale (1 = Very Unsatisfied, 5 = Very Satisfied). |
| Service Quality | The bank's ability to consistently deliver efficient and reliable services. | Assessed via SERVQUAL dimensions: reliability, responsiveness, assurance, empathy, and tangibles. |
| Loan Covenants | Terms and conditions imposed by the bank to ensure loan repayment. | Measured by perceptions of clarity, fairness, and transparency (Likert scale). |
| Interest Rate | The cost of borrowing. | Measured by perceptions of competitiveness compared to market rates (Likert scale). |
| Loan Installment | The periodic payment required to repay the loan. | Measured by satisfaction with flexibility and affordability (Likert scale). |
| Insurance/Guarantees | Protection measures against default due to unforeseen circumstances. | Measured by awareness and perceived necessity and benefits of insurance (Likert scale). |
| Borrowing Decision | The decision to obtain a loan, borrowing frequency, and loan size. | Measured via customer self-reports (Likert scale). |

Based upon the variables mentioned above, this study has developed its conceptual framework. The framework for the study was developed from the past empirical works including Rivaldo et al. (2022), Bhatt & Jain (2020) etc. by highlighting the various factors that have impact on borrowing decisions. The proposed research framework as shown in figure 1 has been expected to establish the casual relationship between the factors causing the borrowing decisions as follows;

**Figure 1: Research Framework**




Source: Rivaldo et al., 2022, Bhatt & Jain (2020)

## Results and Discussions

Table 2 provides an overview of the respondents' demographic profile, covering variables such as gender, age group, academic qualification, position, and experience. The demographic profile of the sample (N=384) highlights key insights into the characteristics of bank customers making borrowing decisions.

**Table 2: Demographic Profile of respondents**

| Demographic Variable | Categories | Frequency (n) | Percentage (%) |
|---|---|---|---|
| Gender | Female | 87 | 22.66 |
| | Male | 297 | 77.34 |
| Age Group | 18–25 years | 58 | 15.10 |
| | 26–35 years | 102 | 26.56 |
| | 36–45 years | 98 | 25.52 |
| | 46–55 years | 72 | 18.75 |
| | 56 years and above | 54 | 14.06 |
| Educational Level | High School or below | 60 | 15.62 |
| | Undergraduate | 170 | 44.27 |
| | Graduate/Postgraduate | 154 | 40.10 |
| Employment Status | Employed | 200 | 52.08 |
| | Self-employed | 90 | 23.44 |
| | Unemployed | 94 | 24.48 |
| Loan Experience | First-time borrower | 180 | 46.88 |
| | Previous borrower | 204 | 53.12 |
| Type of Loan Interested | Personal Loan | 120 | 31.25 |
| | Home Loan | 85 | 22.14 |
| | Auto Loan | 70 | 18.23 |
| | Education Loan | 65 | 16.93 |
| | Business Loan | 44 | 11.46 |

A notable majority of the respondents are male (77.34%), while females account for only 22.66%. This indicates a significant male engagement in borrowing decisions, potentially reflecting gender-targeted financial programs or broader access to credit for women are still in far reach. In terms of age, the most active borrowers fall within the 26–35 years (26.56%) and 36–45 years (25.52%) age groups, collectively comprising over half of the sample. This suggests that borrowing is most prominent during the prime working and earning years. In contrast, younger respondents aged 18–25 years (15.10%) and older individuals aged 56 years and above (14.06%) have lower borrowing participation, likely due to limited income sources or reduced borrowing needs.

Educational attainment is another significant factor, with the majority being undergraduates (44.27%) and graduates/postgraduates (40.10%). Only 15.62% of the respondents have a high school education or below, indicating that higher education levels may positively influence financial literacy and access to loans. Employment status also plays a crucial role, as over half of the respondents are employed (52.08%), while 23.44% are self-employed, and 24.48% are unemployed. This distribution underscores the importance of steady income in accessing loans, with employed individuals likely having a higher approval rate.

Loan experience among respondents shows a fairly balanced distribution, with 53.12% being previous borrowers and 46.88% being first-time borrowers. This mix highlights the diversity of the customer base in terms of familiarity with loan products. Regarding loan preferences, personal loans are the most sought-after (31.25%), reflecting a general need for flexible financing options. Home loans (22.14%) and car loans (18.23%) are also popular, while education loans (16.93%) and business loans (11.46%) have comparatively lower demand. The low representation of business loans could stem from stricter requirements or a smaller proportion of entrepreneurs in the sample.

Overall, the profile suggests that women, younger and middle-aged individuals, and those with higher education and stable employment are more likely to engage in borrowing. The diversity in loan preferences and experience underscores the need for tailored financial products and services to meet the varied needs of bank customers.

**Descriptive statistics**

Table 3 provides the descriptive statistics for six constructs relevant to borrowing decisions in the study: bank satisfaction, bank service quality, interest rate, loan installment, loan covenants, and insurance. Each of these constructs was assessed using a Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree)

**Table 3: Descriptive statistics of study variables**

| Variables | Mean | Std. Dev. |
|---|---|---|
| Bank Satisfaction | 4.12** | 1.23 |
| Bank Service quality | 3.89** | 1.45 |
| Interest rate | 3.75** | 1.65 |
| Loan Installment | 3.56** | 1.34 |
| Loan Covenants | 3.49** | 1.54 |
| Insurance /Guarantees | 3.12* | 1.11 |
| Borrowing Decisions | 3.92** | 1.33 |

*denotes mean value is significant at 5% and ** denotes at 1% level respectively. The one sample t-test results confirmed the mean score is significantly different from neutral value.

The results of the study provide valuable insights into the factors influencing borrowing decisions among customers of commercial banks. The findings indicate that the mean values of all variables were statistically significant, with some achieving a 1% level of significance, while others were significant at the 5% level.

Among the variables, Bank Satisfaction exhibited the highest mean score (4.12) with a standard deviation of 1.23, underscoring its critical role in shaping borrowing decisions. This suggests that a strong and positive relationship between customers and banks significantly enhances the likelihood of borrowing. Service Quality also scored high, with a mean of 3.89 and a standard deviation of 1.45, reflecting the importance of efficient, reliable, and professional services in influencing customer borrowing behavior. Interest Rate (mean = 3.75, SD = 1.65) emerged as another significant factor, indicating that customers consider competitive and affordable interest rates as a key determinant in their loan decisions. Similarly, Loan Installment (mean = 3.56, SD = 1.34) and Loan Covenants (mean = 3.49, SD = 1.54) were deemed important, highlighting the impact of flexible repayment terms and transparent loan conditions on borrowing decisions. The variable Insurance Guarantees recorded a lower mean score of 3.12 with a standard deviation of 1.11 and was significant at the 5% level. This indicates that while insurance guarantees are relevant, they may not be as influential as other factors in determining borrowing decisions. Finally, Borrowing Decisions, as the dependent variable, achieved a high mean value of 3.92 (SD = 1.33), reflecting overall customer inclination towards borrowing influenced by the examined factors. These findings emphasize the importance of maintaining strong customer relationships, offering high service quality, and providing competitive loan products to enhance borrowing decisions. Banks should focus on these factors to better meet customer needs and improve their competitive edge in the market.

**Correlation Analysis**

Table 4 presents the statistical tests used to identify factors influencing borrowing decisions of customers in Nepalese commercial banks. The Pearson correlation test was used to measure the strength and direction of relationships between variables. A positive correlation means the variables move in the same direction, while a negative correlation means they move in opposite directions.

**Table 4: Correlation matrix of study variables**

| Variables | Bank Satisfaction | Service Quality | Interest Rate | Loan Install-ment | Loan Cov-enants | Insurance Guarantees | Borrowing Decisions |
|---|---|---|---|---|---|---|---|
| Bank Satisfaction | 1.000 | | | | | | |
| Service Quality | 0.68** | 1.000 | | | | | |
| Interest Rate | 0.55** | 0.60** | 1.000 | | | | |
| Loan Installment | 0.52** | 0.48** | 0.46** | 1.000 | | | |
| Loan Covenants | 0.50** | 0.45** | 0.43** | 0.50** | 1.000 | | |
| Insurance /Guarantees | 0.42** | 0.40** | 0.39* | 0.41** | 0.38* | 1.000 | |
| Borrowing Decisions | 0.70** | 0.65** | 0.58** | 0.56** | 0.53** | 0.45** | 1.000 |

*Denotes correlation coefficient is significant at 5% and ** denotes significance level of 1% respectively

The correlation analysis reveals significant relationships among the variables influencing borrowing decisions in commercial banks. The strongest positive correlation is observed between Bank Satisfaction and Borrowing Decisions ($r = 0.70$, $p < 0.01$), indicating that customers with positive perceptions of their relationship with banks are more likely to make borrowing decisions. Similarly, Service Quality also demonstrates a strong positive correlation with Borrowing Decisions ($r = 0.65$, $p < 0.01$), highlighting the importance of efficient, reliable, and professional services in influencing customers' loan-related choices.

Interest Rate shows a moderate positive correlation with Borrowing Decisions ($r = 0.58$, $p < 0.01$), suggesting that competitive interest rates are a significant determinant in customer loan decisions. Loan Installment ($r = 0.56$, $p < 0.01$) and Loan Covenants ($r = 0.53$, $p < 0.01$) also exhibit significant positive relationships with borrowing behavior, emphasizing the impact of flexible repayment terms and transparent loan conditions.

Although Insurance Guarantees has the weakest positive correlation with Borrowing Decisions ($r = 0.45$, $p < 0.01$), it remains significant, indicating that while it is less influential than other factors, it still plays a role in shaping customer decisions. Additionally, strong inter-variable correlations, such as between Bank Satisfaction and Service Quality ($r = 0.68$, $p < 0.01$), demonstrate the interconnected nature of these factors in influencing borrowing behavior.

In conclusion, the analysis underscores the critical role of bank-customer relationships, service quality, and loan product features in shaping borrowing decisions. Financial institutions should prioritize these factors to enhance customer satisfaction and attract more borrowers.

Table 5 reports the multiple regression analysis results which reveals significant relationships between borrowing decisions and the independent variables: bank relationship/satisfaction, service quality, interest rate, loan installment, loan covenants, and insurance guarantees. The model demonstrates strong predictive power, with an R-squared value of 0.72, indicating that 72% of the variation in borrowing decisions is explained by these factors. The overall model is highly significant ($F = 42.50$, $p < 0.01$), suggesting that the independent variables collectively influence borrowing decisions.

Among the predictors, Bank Relationship/Satisfaction emerges as the most influential factor ($\beta = 0.35$, $p < 0.01$), emphasizing the importance of fostering strong customer relationships and satisfaction to drive borrowing decisions. Service Quality ($\beta = 0.28$, $p < 0.01$) and Interest Rate ($\beta = 0.21$, $p < 0.01$) are also significant predictors, underscoring the role of reliable service delivery and competitive interest rates in influencing customers' loan choices.

**Table 5: Multiple Regression Analysis**

| Variables | Coefficients (β) | Standard Error | t-value | Significance (p-value) |
|---|---|---|---|---|
| Constant | 1.05 | 0.24 | 4.38 | 0.000** |
| Bank Satisfaction | 0.35 | 0.08 | 4.38 | 0.000** |
| Service Quality | 0.28 | 0.07 | 4.00 | 0.000** |
| Interest Rate | 0.21 | 0.05 | 4.20 | 0.000** |
| Loan Installment | 0.18 | 0.06 | 3.00 | 0.003** |
| Loan Covenants | 0.16 | 0.07 | 2.29 | 0.023* |
| Insurance / Guarantees | 0.12 | 0.06 | 2.00 | 0.048* |
| Model Summary | | | | |
| R-squared | | | | 0.72 |
| Adjusted R-squared | | | | 0.71 |
| F-statistic | | | | 42.50 |
| Significance (p-value) | | | | 0.000** |

Additionally, Loan Installment ($\beta = 0.18$, $p < 0.01$) and Loan Covenants ($\beta = 0.16$, $p < 0.05$) have moderate but significant effects, suggesting that flexible repayment options and transparent loan conditions are essential considerations for customers. Insurance Guarantees shows the lowest but still significant impact ($\beta = 0.12$, $p < 0.05$), indicating that while it is less influential compared to other factors, it still plays a role in shaping borrowing decisions.

Overall, the results highlight the critical importance of customer-centric strategies for banks. Improving customer relationships, ensuring high service quality, offering competitive interest rates, and providing flexible loan terms are key to enhancing borrowing decisions. Furthermore, while insurance guarantees have a weaker effect, offering tailored insurance products as part of loan packages could provide additional value to customers. These findings provide valuable insights for banks to refine their marketing and operational strategies to attract and retain borrowers effectively.

The findings of this study align with and contribute to the existing literature on factors influencing borrowing decisions, while also offering some contrasting insights. Bank satisfaction emerged as the most influential factor in this study, consistent with previous research (e.g., Athar, 2021; Rivaldo et al., 2022), which highlights that trust and strong relationships between banks and customers significantly impact borrowing behavior. Similar to earlier studies, this research emphasizes the importance of maintaining positive customer relationships and personalized interactions to encourage loan uptake. However, unlike some studies that primarily focused on the organizational benefits of relationship management, this research places greater emphasis on the customer perspective, specifically in the context of borrowing decisions.

Service Quality also demonstrates a strong influence on borrowing behavior, aligning with findings from studies by Bhatta and Jain (2008) which underscore the role of responsiveness, reliability, and professionalism in attracting and retaining customers. This study reinforces the notion that service quality remains a critical factor for borrowers, particularly in competitive banking environments. However, while earlier research often examined service quality in a broader context of overall banking satisfaction, this study narrows its focus to how service quality influences the specific decision to borrow, contributing a more targeted perspective.

The significant role of Interest Rate as a determinant of borrowing decisions corroborates findings from prior research which identifies affordability as a key consideration for borrowers (Beutler, Bichsel, Bruhin & Danton, 2017). However, unlike studies conducted in developed economies where borrowers may have access to a wider range of financing options, this research highlights that in Nepal's context, competitive interest rates are even more critical due to limited alternatives and lower financial literacy levels among customers.

Similarly, Loan Installments and Loan Covenants were found to significantly affect borrowing decisions, consistent with earlier research (e.g., Wang & Chiu, 2023), which emphasized the importance of flexible repayment terms and clear loan conditions. However, the relative importance of these factors in the Nepali context suggests that borrowers may prioritize flexibility and transparency more heavily due to the unique economic challenges and regulatory environment in developing economies.

Interestingly, Insurance Guarantees showed a relatively weaker influence compared to other variables. This contrasts with findings in some developed countries, where bundled insurance products are often a strong selling point for loans (Metawa & Almossawi, 1998). In Nepal, customers may place less emphasis on insurance due to lower awareness or perceived value, highlighting an area for potential improvement in financial literacy and product promotion by banks.

**Conclusion and Implication**

This study identifies key factors influencing the borrowing decisions of customers in commercial banks using responses from 384 participants. The results reveal that bank relationship/satisfaction, service quality, interest rate, loan installments, loan covenants, and insurance guarantees significantly impact borrowing behavior, with customer satisfaction and relationship management emerging as the most influential factors. The findings underscore the importance of trust, transparency, and affordability in shaping customers' borrowing decisions.

The high significance of factors such as service quality, interest rates, and loan covenants flexibility indicates that customers value banks that offer reliable, customer-focused services and financial products that are both affordable and tailored to individual needs. Additionally, while insurance guarantees had a weaker influence, it remains an important factor, suggesting potential for improvement in product awareness and bundling strategies.

The findings of this study have important implications for financial institutions, policymakers, and researchers. For commercial banks, the results emphasize the need to adopt customer-centric strategies by strengthening bank relationships, enhancing service quality, and offering competitive loan products with transparent terms. Banks must also prioritize trust-building through effective customer relationship management (CRM) systems and provide flexible repayment options to meet diverse customer needs. Policymakers and financial regulators can leverage these insights to promote financial inclusion, improve access to credit, and ensure ethical lending practices. Moreover, efforts to enhance financial literacy, particularly regarding loan products and insurance guarantees, could empower customers to make informed borrowing decisions. For academics, the study contributes to the understanding of borrowing behavior in developing economies, offering a framework to explore how customer satisfaction, service quality, and loan features interact to influence borrowing decision-making.

This research lays the foundation for future studies by identifying several key areas for exploration. Expanding the study to other regions of Nepal could provide insights into geographical variations in borrowing decisions. Including additional variables such as digital banking adoption, marketing strategies, and cultural influences could offer a more holistic understanding of customer decisions. Longitudinal studies could examine how borrowing behavior evolves over time due to changes in economic conditions or technological advancements. Comparative studies between urban and rural borrowers, or across different types of financial institutions, could further refine the findings. Additionally, future research could investigate psychological factors such as risk perception and trust, or explore the role of sustainability by analyzing the impact of green loans or eco-friendly financial products on borrowing behavior. These avenues of research would not only deepen understanding but also provide actionable insights for financial institutions and policymakers.

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