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Abstract

This study aimed to identify the determinants of loan application of farmers and their satisfaction level on the different lending institutions in fourth District of Nueva Ecija. Out of eight Municipality, seven Municipality were included in the farmers interview, from 736 total population, 259 respondents were selected using slovins formula. Respondents was come from three lending institution namely; Land Bank of the Philippines, Rural Bank of San Leonardo, and Tulay sa Pag-unlad Inc. The respondents were selected based on their socio demographic characteristics that would fall on the interest of the study, farmer respondents were identified based the data from the Office of the Municipal Agriculturist of the Fourth District of Nueva Ecija. Socio-demographic characteristics of the farmer respondents were significant to their level of satisfaction, wherein demographic characteristics affects the decision of the borrower in availing for loan. The better the demographic characteristics of the borrower the more satisfied they are on the loan programs offered by their respective lending institution in addition the more acceptable the determinants the higher the satisfaction of the borrower. Relationship of determinants and levels of satisfaction shows that, there is significant relationship between loan determinants and level of satisfaction. There is strong positive correlation between the two variables wherein the loan determinants were more acceptable, the level of satisfaction increases. Likewise, the higher the acceptance of determinants of loan application the higher the levels of satisfaction of the respondents.

Keywords: *satisfaction, determinants, loan availment, relationship*

*Municipal Agricultural Office, LGU-San Leonardo, Nueva Ecija

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Introduction

Nueva Ecija was also known as the rice granary of the Philippines in which most of the farmers especially the poor ones were relying on agricultural loan as the major source of their capital. Accessing credit or granting loans was such a great help to the farmers of this province. Agricultural loan supports farmers by providing money, allowing them to use funds to acquire inputs. According to Dasharath (2016) agricultural loan enhances productivity and promotes standard of living by breaking vicious cycle of poverty of small-scale farmers. Rural financial market in the Philippines consists of formal credit institutions and informal credit channels.

Source of capital was among the most common problems faced in agriculture particularly in rice farming, small farmers usually borrowed money for the source of their capital, World Bank (2007) claimed that financial constraints are more prevalent in agriculture than in other sectors. Access to credit has been considered as one of the main problems that farmers have to deal with in order to survive. Nithin (2016) stated that credit was one of the critical inputs for agricultural development it capitalizes farmers to undertake new investments and/or adopt new technologies. Borrowing money from informal sources causes small farmers from indebtedness due to its high interest rate of 10% per month or sometimes informal lenders demand rice as an interest to the borrowed capital (Nagarajan and Meyer 1993), unlike to the formal sources like government and private banks that offers lower interest rate of around 2% per annum.

Stiglitz and Weiss (1981) reasoned out that small farmers who may be good credit risks are unable to acquire credit from formal channels and resort to borrowing from informal sources. Another problem was formal channels requires collateral for loan to ensure that farmers will pay for his/her borrowed capital, (Bester, 1985; Chan and Kanatas, 1985; Besanko and Thakor, 1987) explained that collateral requirements were common terms in loan contracts, together with the interest rate, maturity, and size and possible covenants. Credit market research explains the use of collateral as a consequence of adverse selection and/or moral hazard (Boot et al., 1991), which problems arise in transactions between borrowers and lenders.

Nueva Ecija have three (3) common lending institutions offering loans to the farmers, these are; Government Banks, Rural Banks, and Private commercial institution such as Land Bank of the Philippines (LBP), New Rural Bank of San Leonardo and Tulay Sa Pag unlad Incorporated (TSPI). Each lending institution have different guidelines or protocols in granting farmers for loan and also have different interest rate on loans. This paper will seek to determine the impact of the lending institutions to farmers by determining interest rate offered by different institutions, benefits offered and also the collateral needed in availing loans. In addition, this paper would explicit the negative thinking of the borrowers regarding on the policy and guidelines on granting loans by different lending institution.

This paper aims to: determine the credit profile of borrower in terms of; number of years as borrower, type of lending institution, loan program availed, interest rate availed and collateral; identify the determinants of loan application and availment to the lending institution such as: interest rate free insurance, collateral, easy application: 4. identify the problems encountered by the farmer- borrower in terms of: application, releasing, payment. And to assess the level of satisfaction of farmer borrowers on the services of the different lending institutions such as: lowest interest rate, insurance and timely release of loans.

Materials and Methods

Correlational, and descriptive research design using survey method was used in this paper wherein the data collected contain independent-dependent variables which describes the interrelation of the different factors affecting the loan accessibility of farmer borrower. Using Cochran's formula, 259 respondents was selected in which One Hundred Thirteen (113) respondents came from Land Bank of the Philippines, ninety-two (92) came from New Rural Bank of San Leonardo, and Fifty-Four (54) respondents came from Tulay sa Pag-Unlad Inc. from the total population of 736 farmer borrower from 4th District of Nueva Ecija.

Test of means and standard deviation was used to determine the personal, social and entrepreneurial characteristics, role of the linkage of the different institutions and problems faced by the farmer borrower also Pearson's Product Moment Correlation (Pearson's *r*) was used to determine the relationship between respondents' age, household size and years of farming experience, number of years as borrower, characteristics of farmer borrower, role of different linkages, problems faced by the farmer borrower. In determining the relationship between the educational attainment, loan program and interest rate availed, analysis of variance (ANOVA) was used.

Results and Discussion

Socio Demographic Characteristics

Socio-demographic characteristics of farmer borrowers was investigated by the researcher in terms of sex, education, job, source of income. Results shows that most of the borrower were; male (freq = 180; % = 69.5), High School Graduate (freq = 117; % = 45.2), farmer as their occupation (freq = 259; % = 100), and Farming as their source of income (freq = 258; % = 99.6) Table 1.

Table 1

Socio-Demographic Characteristics of Respondents

Indicators	Frequency	Percentage
Sex		
Male	180	69.5
Female	79	30.5
Educational Attainment		
Elementary Level	4	1.5
Elementary Graduate	27	10.4
High School Level	51	19.7
High School Graduate	117	45.2
College Level	38	14.7
College Graduate	19	7.3
Others (Vocational)	3	1.2
Occupation		
Farmer	259	100
Source of Income		
Farming	258	99.6
Tricycle	1	0.4

According to Nguyen (2007). Socio demographics factors affect the bank choices of the products. In order to properly evaluate bank product performance a business must know the demographic profile of its customers. To see if the demographic traits necessary to support the performance of the business, it must look at the customer: purchasing power, and the degree of disposable income within the various demographic categories.

Determinants of Loan Application and Availment to the Lending Institution

The results on the determinants of loan, show that respondents *always* consider loan application process prior to loan availment (mean = 4.55; SD = 0.56), and interest rate (mean = 4.34; SD = 0.72), insurance was *often* considered by the respondents (mean = 3.92; SD = 1.10) while collateral was *sometimes* considered by the respondents prior to loan availment (Table 2). As respondents thinking was to minimize their resources by accessing credit that would fit their socio demographics, needs and minimize their hours in applying and availing of loans.

Item	Mean	SD	Verbal Description
Interest rate	4.34	0.72	Always
Insurance	3.92	1.10	Often
Collateral	3.19	1.26	Sometimes
Application	4.55	0.56	Always

Results on the problems encountered (Table 3). Shows that respondents *disagree*; on the application process (mean = 2.35; SD = 1.41), and loan releasing (mean = 1.82; SD = 0.73) Moreover, respondents *strongly disagree* that they have encountered problems in loan repayment (mean = 1.74; SD = 0.86).

Item	Mean	SD	Verbal Description
Application	2.35	1.41	Disagree
Releasing	1.82	0.73	Disagree
Repayment	1.74	0.86	Strongly Disagree

Levels of Satisfaction of Farmer Borrower

Farmer borrowers were *very satisfied* on the determinants of loan application as perceived by; interest rate (mean = 4.26; SD = 0.81), application process (mean = 4.36; SD = 0.64), farmers were *satisfied* on the insurance offered by lending institution (mean = 3.67; SD = 1.48) while some were *Neither Satisfied nor Dissatisfied* on the required collateral by lending institution (mean = 2.74; SD = 1.16) Table 4.

Table 4

Levels of Satisfaction of Farmer Borrower

Item	Mean	SD	Verbal Description
Interest Rate	4.26	0.81	Very Satisfied
Application	4.36	0.64	Very Satisfied
Insurance	3.67	1.48	Satisfied
Collateral	2.74	1.16	Neither Satisfied nor Dissatisfied

Relationship between the Respondents’ Sociodemographic Characteristics and Their Level of Satisfaction on the Different Lending Institution

Table below shows that, there was a *highly significant* relationship occurred between collateral and level of satisfaction among respondents that was less than 0.01 level of significance with a of p-value = 0.000. Results shows that there was a low positive correlation between collateral and satisfaction at R value of 0.479. This shows that the higher the value of collateral the higher the satisfaction of the respondents, this explains that amount to be loaned was based on the collateral presented by the respondents, the bigger the collateral value the higher the loanable amount also, the more secure the loan. *Significant* relationship was also observed between problems encountered and level of satisfaction (p-value = 0.034). Results shows that, as the borrower experience less problems, the level of satisfaction increases. Moreover, *significant* relationship was also observed between insurance and level of satisfaction (p-value = 0.000). There was strong positive correlation (R=0.872) between the two variables. Crop and accident insurance influence the availment of loan among respondents wherein farmers always seek for the security of their self and for their crop planted against external factors that may affect or influence reduction of their harvest.

Table 5

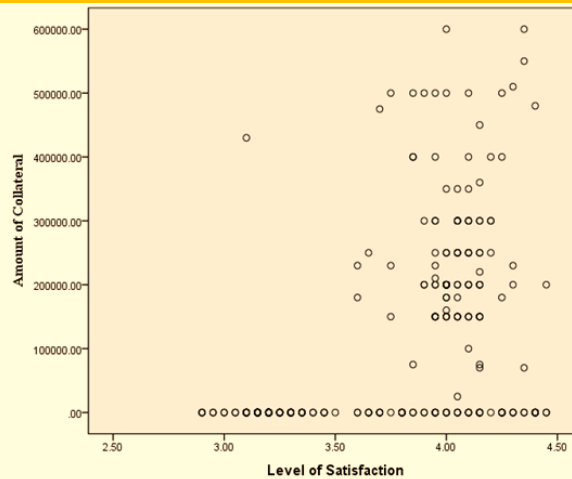
Relationship of Independent Variables on the Levels of Satisfaction

Variable	Mean	SD	R-Value	R Square	p-value	Result
Amount of Collateral	113, 050.19	152, 357.32	.479 ^a	0.229	.000 ^b	Significant at 0.01
Level of Satisfaction	3.76	0.44				
Problems Encountered	1.96	0.53	.132 ^a	0.017	.034 ^b	Significant at 0.05
Insurance	3.92	1.04	.872 ^a	0.759	.000 ^b	Significant at 0.01

Figure below shows the relationship between amount of collateral and levels of satisfaction (Figure 1). This shows that the highest amount of collateral was at 600,000.00 pesos with levels of satisfaction from 3.9 to 4.5. Most of the respondents’ collateral ranged from 70,000.00 to 550,000.00 pesos. It was observed that the higher the collateral the higher the levels of satisfaction. While on the other side some respondents were 0 values on collateral with level of satisfaction ranging from 2.8 to 4.5, which means that the farmers with 0 collateral has no collateral gave to their selected creditors.

Figure 1

Relationship of Amount of Collateral and Level of Satisfaction



Test for Multicollinearity

Table below shows the test for multicollinearity. Results shows that there were no signs of multicollinearity within the independent variables because the variance inflation factor (VIF) were less than 5. Multiple regression was run to predict the level of satisfaction from loan determinants such as application, insurance, collateral as well as problems encountered, amount of collateral and number of years as borrower. The results show that the combination of insurance and collateral policies contributes to the increase of level of satisfaction of borrowers.

Table 6

Results on Multiple Linear Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	1.933	.224		8.618	.000
Application	.037	.039	.031	.948	.344
Insurance	.357	.017	.846	21.102	.000
Collateral	.082	.029	.101	2.788	.006
Problems Encountered	.006	.028	.008	.233	.816
Amount of Collateral	2.069E-7	.000	.072	1.837	.067
Number of Years as Borrower	-.006	.004	-.048	-1.416	.158

Dependent Variable: Level of Satisfaction

Conclusions

Based on the results of this study, the more acceptable the determinants of loan; the higher amount of collateral; and the less problems encountered; the higher the satisfaction of the farmer-borrowers. Also, shows that among the determinants of loan application, farmer-borrowers tend to have higher satisfaction on the application process. Moreover, the better the socio-demographic and credit profile, the higher the satisfaction of the farmer-borrowers.

Recommendations

Based on the results of the study, the following are some recommendations that could benefit farmers:

1. The lending institution in partnership with the Local Government Unit may conduct seminar on the process and benefits applying loan to the formal institution.
2. Lending institutions may provide loan program that requires minimal documents that are easy to provide.
3. The lending institution through national agencies offer loan in higher amount that would not require material assets/properties as collateral such as stated in this study, instead require collateral that are easy to provide such as human collateral or guarantor.
4. The lending institution in partnership with Local Government Unit bring closer the credit to the farmers especially in the Barangays that are far from the credit facilities.

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