

# FACTORS INFLUENCING CUSTOMER CHOICE OF PERSONAL LOANS – ANALYZING THE IMPACT OF INTEREST RATES, REPAYMENT TENURE, AND BRAND TRUST– AN EXPLORATORY STUDY

**Vishal. C<sup>1</sup>, Dr. A. Narmadha<sup>2</sup>**

Reg No.:23301260 - Department of MBA, VISTAS<sup>1</sup>

Associate Professor, Department of MBA, VISTAS<sup>2</sup>

**Abstract:** In an increasingly competitive financial services market, understanding the factors that influence customer choice of personal loans has become critical for lenders. This study examines how key variables—interest rates, repayment tenure, and brand trust—impact customer decisions when selecting personal loan products. Through a structured survey distributed to a diverse sample of borrowers, the research analyzes consumer preferences and priorities in loan selection. The findings reveal that while low interest rates remain a dominant factor, flexible repayment terms and the perceived trustworthiness of the lending brand also play significant roles in shaping customer choices. The study highlights the growing importance of transparent communication, customer service, and brand credibility in building consumer confidence. These insights can guide financial institutions in designing loan offerings that are both competitive and customer-centric, ultimately enhancing customer acquisition and retention.

**Keywords:** Repayment Tenure, AI in recruitment, Financial Services, Loan Preferences

## I. INTRODUCTION

In the modern financial landscape, personal loans have become a widely used credit option for individuals looking to meet a variety of personal needs such as education, medical expenses, travel, or debt consolidation. With the growth of the banking and non-banking financial sectors, the availability of personal loan products has significantly increased. This has led to greater competition among lenders, making it essential to understand the key factors that influence customer preferences when choosing a personal loan provider.

Among the numerous factors that customers consider, interest rates, repayment tenure, and brand trust are among the most influential. Interest rate is often the foremost factor, as it directly impacts the overall cost of borrowing. A lower interest rate makes the loan more attractive by reducing the monthly installments and total repayment amount. Customers usually compare interest rates across lenders before making a decision.

Repayment tenure is another important factor. It refers to the duration over which the loan is to be repaid. A longer tenure may reduce the monthly EMI burden, offering financial flexibility, whereas a shorter tenure may result in higher EMIs but lower overall interest costs. Customers choose repayment terms based on their income, financial planning, and comfort in managing monthly outflows.

Brand trust plays a significant psychological and emotional role in influencing loan choices. Customers are more likely to approach and select lenders with a strong reputation, transparent policies, responsive customer service, and positive past experiences. Trust in a financial institution can reduce the perceived risk and increase customer confidence in the loan process.

This study aims to explore and analyze how these three key factors—interest rates, repayment tenure, and brand trust—influence customer behavior and decision-making in the selection of personal loans. Understanding these insights can

help financial institutions tailor their offerings, enhance customer satisfaction, and strengthen their competitive position in the market.

## **II. REVIEW OF LITERATURE**

**Bankrate(2025)** Bankrate reported that the average interest rate for personal loans climbed to 12.43% in April 2025, mainly due to the Federal Reserve's multiple rate hikes. These elevated interest rates have made borrowing more expensive, leading customers to be more selective in choosing lenders. Customers increasingly prefer fixed-rate personal loans to avoid the risk of rising EMIs. This shift highlights the significant impact that interest rates have on customer preferences when selecting personal loans.

**Experian(2023)** Experian's annual report revealed that despite rising interest rates, the average personal loan balance increased by 6.3% during 2023. This suggests that many customers, even when faced with higher costs, continued to rely on personal loans to meet essential needs like debt consolidation and emergency expenses. The findings imply that although interest rates affect loan affordability, personal financial pressures often push customers to borrow regardless of rate conditions.

**Investopedia(2023)** According to Investopedia's Personal Loan Borrower Survey, nearly half of the respondents considered interest rates the most critical factor when choosing a personal loan. Factors like brand reputation, online convenience, and customer service were secondary. This underlines how customers are highly rate-sensitive when it comes to unsecured credit products, where the cost of borrowing can significantly impact the total repayment burden.

**Nerd Wallet(2025)** NerdWallet found that even individuals with good credit scores (690-719) were offered personal loan interest rates averaging 16.61% in early 2025. This shows that interest rates are not only dependent on credit profiles but also on overall economic factors. Borrowers, despite good creditworthiness, were unable to escape the broader market trend of higher interest rates, making loan selection even more cautious and competitive.

**Yahoo Finance(2023)** Yahoo Finance discussed how the Federal Reserve's monetary policy directly affects personal loan affordability. As the Fed increased interest rates to curb inflation, borrowing costs rose across all segments. This discouraged some customers from applying for personal loans altogether, while others shifted to credit cards or used existing savings instead of taking expensive new loans.

**Experian(2022)** Experian observed a 16% increase in personal loan accounts by the end of 2022 despite rising interest rates. This growth suggests that consumers still sought liquidity for needs like home improvements, medical expenses, and weddings. The ease of application processes through mobile apps and quick disbursement practices seemed to outweigh the concerns about higher interest rates.

**LendingTree(2025)** LendingTree's report highlighted that the delinquency rate for personal loans slightly declined to 3.57% in Q4 2024, down from 3.90% in 2023. This indicates that while interest rates rose, borrowers adjusted their repayment habits and financial planning. This trend reassures lenders, who could be more flexible with rate offerings based on improved consumer credit behavior.

## **NEEDS FOR STUDY**

In today's dynamic financial landscape, personal loans have emerged as a vital financial product for individuals seeking funds to meet various needs, such as medical emergencies, education, weddings, or travel. However, with the increasing number of financial institutions and loan products available, customers are faced with numerous choices. Understanding the factors that influence customer choice is crucial for financial institutions to design competitive and customer-centric loan offerings. Among the various factors affecting customer decision-making, interest rates, repayment tenure, and brand trust stand out as the most significant.

## **OBJECTIVES OF STUDY:**

### **Primary Objectives:**

To analyse the impact of interest rates on customer choice when selecting a personal loan.

### **Secondary Objectives:**

- To examine the awareness levels of customers regarding interest rates and repayment tenure when choosing a personal loan.
- To explore the impact of additional factors such as **processing fees, loan approval speed, and customer service** on loan selection.

- To assess how marketing efforts and brand reputation shape customer perceptions and trust in financial institutions.
- To provide **recommendations for financial institutions** to enhance customer satisfaction and improve loan offerings.
- To analyze the role of customers financial literacy in influencing their personal loan selection decisions.

## SCOPE OF STUDY:

This study explores the key factors influencing customer preferences when selecting personal loans, focusing on interest rates, repayment tenure, and brand trust. It examines how variations in interest rates impact borrowing decisions, considering the trade-off between lower rates and other loan features. Additionally, the study assesses the role of repayment tenure in shaping customer choices, particularly regarding affordability and financial commitments over time.

## III.RESEARCH METHODOLOGY

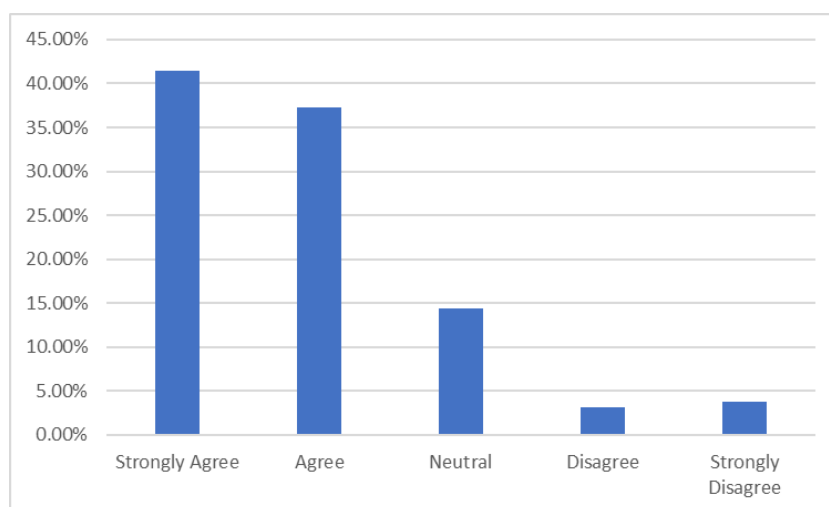
Research methodology refers to the specific procedures or techniques used to identify, select, process, and analyze information about a topic. In a research paper, the methodology section enables the reader to critically evaluate the study's overall validity and reliability.

## DATA ANALYSIS AND INTERPRETATION:

**Can you compare interest rates before choosing a personal loan.**

Response Category	Frequency	Percent
Strongly Agree	132	41.4%
Agree	119	37.3%
Neutral	46	14.4%
Disagree	10	3.1%
Strongly Disagree	12	3.8%
Total	319	100.0

**Can you compare interest rates before choosing a personal loan.**



## INTERPRETATION:

This table reflects the respondents' level of agreement with the given statement. A significant majority, comprising 41.4% who strongly agree and 37.3% who agree, show a positive response (totaling 78.7%). 14.4% remain neutral, while only a small percentage disagree (3.1%) or strongly disagree (3.8%). This indicates a strong overall agreement among respondents, suggesting a favorable attitude toward the statement in question.

**CHI-SQUARE –TYPE OF INSTITUTION CHOSEN FOR LOAN**

<b>FINANCIAL LITERACY AND PERSONAL LOAN SELECTION * Type of Institution Chosen for Loan</b>						
<b>Crosstabulation</b>						
Count						
		Type of Institution Chosen for Loan				Total
		1	2	3	4	
FINANCIAL LITERACY AND PERSONAL LOAN SELECTION	7	0	0	2	0	2
	13	0	0	2	0	2
	14	2	0	2	2	6
	15	2	0	0	2	4
	16	4	4	4	4	16
	17	4	8	2	0	14
	18	10	17	7	9	43
	19	18	8	16	12	54
	20	14	15	11	10	50
	21	6	18	17	1	42
	22	15	11	8	0	34
	23	6	8	10	2	26
	24	8	0	8	4	20
	25	2	2	2	0	6
Total		91	91	91	46	319

<b>Chi-Square Tests</b>			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	73.814 <sup>a</sup>	39	.001
Likelihood Ratio	90.690	39	.000
Linear-by-Linear Association	2.978	1	.084
N of Valid Cases	319		
a. 31 cells (55.4%) have expected count less than 5. The minimum expected count is .29.			

**INTERPRETATION:**

From the results of the Chi-Square Test, the Pearson Chi-Square value is 73.814 with a p-value (Asymp. Sig.) of 0.001, which is less than 0.05. Hence, we reject the Null Hypothesis ( $H_0$ ) and accept the Alternative Hypothesis ( $H_1$ ). This indicates that there is a significant association between Financial Literacy & Personal Loan Selection and the Type of Institution Chosen for Loan. Therefore, while a significant relationship is observed, the interpretation should be made with caution due to the limitations in the expected frequency distribution.

**IV.FINDINGS**

The demographic profile of the respondents in this study reflects a well-balanced and diverse sample. The gender distribution was nearly equal, with 53.6% male and 46.4% female participants, indicating fair representation across genders. The majority of respondents (55.4%) were young adults aged between 21 and 35 years, followed by 33.8% in the 35–45 age group, suggesting that younger individuals are more actively engaged in personal loan activities. Educationally, a significant portion of the participants held at least a diploma (32%) or an undergraduate degree (30.1%), reflecting a moderately educated sample. Occupation-wise, salaried employees formed the largest group at 50.1%, with students (25.1%) and retired individuals (24.8%) also contributing to the diversity of the respondent pool. In terms of

income, most participants reported earning within the middle-income bracket, with 55.5% earning between ₹20,001 and ₹40,000, and 33.3% earning between ₹40,001 and ₹50,000, indicating a sample with moderate financial capacity.

### V.SUGGESTIONS

To improve customer decision-making and trust in personal loan services, financial institutions should implement regular financial literacy initiatives such as webinars and workshops that educate customers on essential topics like interest rates and repayment terms. Additionally, offering personalized loan products that align with individual financial needs can significantly enhance customer engagement and loyalty. It is equally important to reduce or eliminate hidden charges, as these often mislead borrowers and undermine the credibility of the institution. Furthermore, public awareness campaigns should be launched to explain crucial aspects such as the differences between fixed and floating interest rates and how loan tenure impacts EMI, helping borrowers make more informed financial choices.

### VI.CONCLUSION

The study concludes that while awareness of interest rates and repayment tenure is considered a crucial factor influencing personal loan decisions by a significant majority of respondents, customer choice is a complex decision-making process shaped by numerous interconnected factors. Although not strongly correlated with most factors, the combined influence of these elements suggests that financial institutions must adopt a comprehensive strategy.

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