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(Review Article)

Borrower's aptitude and attitude towards microfinance loan payment

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Abstract

Microfinance institutions are vital financial services providers to underserved communities through economic empowerment and poverty relief. Nevertheless, the sustainability of these institutions depends on the ability and behavior of borrowers to repay them. One hundred seventy-six (176) respondents who availed of loans in microfinance institutions in Boston, Davao Oriental, Philippines, were surveyed for this research. The main findings suggested that borrowers who are married (85.2%), have few dependents peak earning, are between 31 and 40 years old (39.8%), achieved high educational levels (secondary 48.3%, tertiary 5.1%), save constantly (75%), and own business assets (51.1%) may have better potential for repaying loans. In contrast, those who earn little (<10k/month) at 70.5% might be unable to repay their debts when they become due. Moreover, the respondents had an exceptionally positive attitude toward payment, including timeliness, with a mean score of 4.26, credit investigation score of 4.03, ease of payment score of 3.95, and willingness to pay scores of 3.87. Furthermore, the significance of borrowers' aptitudes and attitudes based on their demographic profiles: educational level, type of savings, and level of income (for timeliness) significantly influenced borrowers' attitudes, while factors like marital status, number of dependents, level of income (at ease of payment, willingness and credit investigation), age, and type of assets did not have a significant impact.

Keywords: Microfinance institution; Borrowers' aptitude; Borrowers' attitude; Loan payment

1. Introduction

The ongoing surge in loan default toward loan payment has become a problem for some lending institutions because not all loans disbursed are repaid on the due date (Makorere, 2014). For instance, the Federal Reserve Bank of New York's Center for Microeconomic Data stated that 3 million loan borrowers defaulted in 2021. This dilemma arises when the borrowers need help to meet up to their loan payment day (Denning & Jones, 2019). Additionally, the loan defaults of borrowers in microfinance institutions are produced by the borrower's aptitude and attitude to loan payment performance (Angaine & Waari, 2014).

The research study was crucial to examining the difficulties and delivering vital information in developing borrowers' knowledge and decision-making skills. By assessing this industry's financial obstacles, the research study's findings offer empirical support and recommendations for policy to microfinance institutions, MSE lending and support groups, scholars, and government policymakers.

1.1. Objectives of the study

The objectives of this study are the following:

- To determine the aptitude of the borrowers.

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- To determine the level of attitude of borrowers toward loan repayment.
- To determine the significant difference between the aptitude (Demographic Profile) and attitude of borrowers toward loan repayment.

1.2. Conceptual Framework

The conceptual diagram represented the relationship between the study's variables.

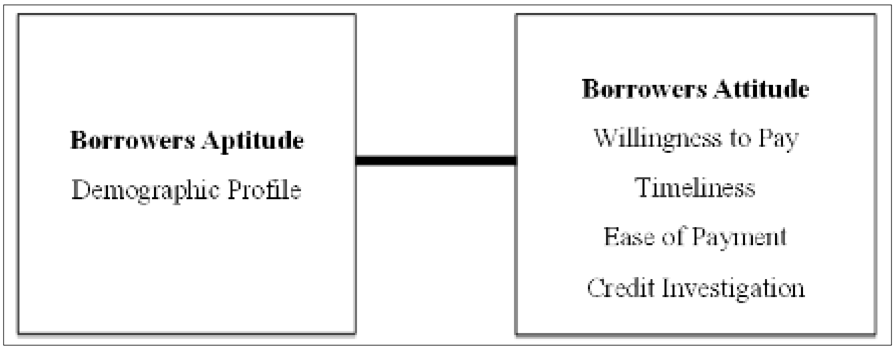

Figure 1 Conceptual diagram of the study

2. Review of Related Literature

2.1. Microfinance Industry in the Philippines

In simple terms, microfinance provides financial services to low-income or underprivileged individuals (Watkins, 2016). With the overarching goal of reducing poverty, microfinance institutions have a specific mission to provide small loans and other financial services, like savings and insurance, to impoverished people who generally do not have access to formal sources of credit (Tafamel, 2019). Their financial services usually target low-income individuals and small enterprises (Iqbal et al., 2015).

2.2. Borrowers Qualities for Loan Availment in Microfinance Institution

Borrower traits significantly impact loan default in MFIs. Borrowers should have specific characteristics to benefit from or easily access microcredit institution services (Nyangiru et al., 2014). The degree of the borrowers' accessibility to credit will depend on how seriously MFIs take their characteristics prior to extending credit to clients (Nanayakkara & Stewart, 2015). For example, borrowers with assets will have an easier time getting credit because there is a lower risk that the lender may lose money.

2.3. Borrowers Loan Repayment Performance

Prompt loan repayment is essential for lending institutions and borrowers. According to Worokinasih and Potipiroon (2019), loan repayment performance is the borrower's commitment to repaying the loan within the allotted time frame. The stronger the lending institution's financial stability and ability to successfully satisfy its debt commitments, the better its loan payback performance (Rafay et al., 2020).

2.4. Borrower’s Attitude and Aptitude Towards Loan Repayment Performance

For the benefit of lending institutions and borrowers, prompt loan repayment is essential. The lending institution's ability to effectively meet its debt commitments is bolstered by its better loan payback performance (Rafay et al., 2020). According to Adamou et al. (2020), a complete understanding of borrowers' loan repayment behavior is necessary to operate any credit scheme efficiently.

3. Methodology

3.1. Research Locale and Duration

This study was conducted in Boston, Davao Oriental in microfinance institutions. Boston is primarily agricultural, so the rest of the barangays engage in agri-industrial activities. Because Boston is a rural area and distant-wise, low-income residents need access to traditional banking and financial institutions; services offered by microfinance institutions, such as loans and insurance, to name a few, are a massive advantage for them. The duration of this study was within the 2nd semester of the Academic Year 2023-2024.

Figure 2 Location of Boston, Davao Oriental

3.2. Research Design

The researchers utilized a descriptive-comparative quantitative research design to describe the differences between groups in a population without manipulating the independent variable (Cantrell, 2011).

3.3. Research Instrument

The instrument that was used in the study is an adapted survey questionnaire developed from the study of Bob Ssekiziyivu, Juma Bananuka, Isaac Nkote Nabeta, and Zainabu Tumwebaze (2018) titled Borrowers' Characteristics, Credit Terms and Loan Repayment Performance among Clients of Microfinance Institutions (MFIs).

4. Results and discussion

4.1. Demographic Profile of the Respondents

Table 1 Distribution of respondents in terms of marital status

Marital Status	Frequency	Percentage
Single	4	2.30
Married	150	85.20
Separated / Divorced	9	5.10
Widowed	13	7.40
TOTAL	176	100.00

Table 1 shows that most respondents are married, with a frequency of 150, or 85.20% of the total population. It supported the study findings of Duguma and Amenu Leta (2021), as highlighted that most of the borrowers who are married were capable of paying their loans because of shared financial responsibilities and commitments within the household; loan repayments become less burdensome for married individuals compared to other category in marital status.

Table 2 reflects that the three dependents with 44 frequencies, or 25%, have the most dependent profiles of respondents. Respondents' aptitude among the categories in terms of the number of dependents was favorable. For Tundui and Tundui (2013), due to the likelihood that family obligations would result in loan diversions to pay fees or purchase food, a borrower with a large household size was found incapable of meeting up to their loan repayment day.

Table 2 Distribution of respondents in terms of number of dependents

Number of Dependents	Frequency	Percentage
One Dependent	27	15.30
Two Dependents	39	22.20
Three Dependents	44	25.00
Four Dependents	35	19.90
Five Dependents	19	10.80
More than five Dependents	12	6.80
TOTAL	176	100.00

Table 3 shows that the age group of 31 to 40 years old consists of most respondents with a frequency of 70 or 39.80% of the total population. Jote (2018) stated that the borrower's age is an essential loan repayment predictor. Borrowers between the ages of 31-40 typically have significant financial needs such as housing, education, and business investment that necessitate borrowing during the working stage of their life.

Table 3 Distribution of respondents in terms of age level

Age Level	Frequency	Percentage
30 and below	44	25.00
31 to 40 years old	70	39.80
41 to 50 years old	29	16.50
51 and above years old	33	18.80
TOTAL	176	100.00

Among age groups, this age category is more capable. However, another study also showed that borrowers who are young (less than 30 years) and older (above 60 years) are commonly responsible for loan payments. It was contradicted by Ifeanyi et al. (2014), who suggested that younger borrowers were more likely to do so than older ones.

Table 4 Distribution of respondents in terms of educational level

Education Level	Frequency	Percentage
Primary Education	82	46.60
Secondary Education	85	48.30
Tertiary Education	9	5.10
TOTAL	176	100.00

Table 4 shows that secondary education has the highest frequency of 85, or 48.30%. It is supported by Pasha and Negeses (2014) findings that educational level had a favorable and substantial impact on loan repayment. Those with lower levels of education may need more money as they have limited job opportunities. At the same time, they make loans to cover basic needs and start a small business.

Table 5 Distribution of respondents in terms of the income level

Income level	Frequency	Percentage
below ₱ 10k	124	70.50
₱ 10,001 to ₱ 20k	47	26.70
₱ 20,001 to ₱ 30k	5	2.80
TOTAL	176	100.00

Table 5 presents the monthly income. Most of the respondents' income is below ₱ 10k and has a frequency of 124, or 70.50%. On the contrary, ₱ 10,001 to ₱ 20k have a frequency of a frequency of 47, or 26.70%, and ₱ 20,001 to ₱ 30k have a frequency of 5, or 2.80%. According to Thayaparan and Sivatharshika (2019), low-income borrowers are often thought to be more likely to miss payments on their outstanding loan agreements with lending institutions.

Table 6 Distribution of respondents in terms of Type of Savings

Type of savings	Frequency	Percentage
Regular Savings	132	75.00
Compulsory Savings	44	25.00
TOTAL	176	100.00

Table 6 shows that most respondents who availed of regular savings have a frequency of 132, or 75%, while those who availed of compulsory savings have a frequency of 44, or 25% of the total population. In this situation, regular savings are supported by the study of Chakravarty and Shahriar (2015); regular savings serve as a tool for payback enforcement and diversification if the borrowers do not meet the loan repayment schedule.

4.2. Level of Borrowers' Attitude Toward Loan Payment

The level of borrowers' attitudes toward loan payment, as shown in Table 7, is high, with a mean of 4.03. It indicates that the borrower's attitude is evident toward loan payment.

Table 7 Level of borrowers' attitude towards loan payment

Indicator		Mean	Std. Deviation	Interpretation
A.	Willingness to Pay	3.87	0.43	High
B.	Timeliness	4.26	0.67	Very High
C.	Ease of Payment	3.95	0.70	High
D.	Credit Investigation	4.03	0.51	High
Borrowers Attitude		4.03	0.44	High

Table 8 Level of borrowers' attitude on willingness to pay

No.	Description	Mean	Std. Deviation	Interpretation
1	Willing to pay without any inducement	4.53	0.73	Very high
2	Sometimes pay loans with the help of group members	3.43	0.84	High
TOTAL		3.87	0.43	High

As shown in Table 8, the level of borrowers' attitude on willingness to pay is high, with a total score mean of 3.87, indicating that the attitude on willingness to pay of the borrowers is evident.

Table 9 Level of borrowers' attitude on timeliness

No.	Description	Mean	Std. Deviation	Interpretation
1	Paying loans on due dates	4.27	0.82	Very High
2	Reminded to pay back the loan.	4.25	0.79	Very High
3	Maintained a good credit history and declared debts timely	4.27	0.79	Very High
TOTAL		4.26	0.67	Very High

As reflected in Table 9, the level of borrowers' attitude toward timeliness toward loan payment is very high, with a total mean of 4.26, interpreting that the attitude toward the Timeliness of the borrowers is very evident. Subsequently, among its three descriptions, paying loans on due dates, maintaining a good credit history, and declaring debts in a timely manner have the same very high mean of 4.27.

As shown in Table 10, the level of borrowers' attitude toward ease of payment is high, with a total score mean of 4.03. The borrowers' attitude toward is evident.

Table 10 Level of borrowers' attitude on ease of payment

No.	Description	Mean	Std. Deviation	Interpretation
1	Comfortable to pay loan	4.20	0.86	High
2	The business generates enough cash flow	3.70	0.83	High
TOTAL		4.03	0.44	High

Table 11 Level of borrower's attitude on credit investigation

No.	Description	Mean	Std. Deviation	Interpretation
1	Having a good credit history	4.19	0.84	High
2	Put up a collateral	3.82	0.80	High
3	Having enough salary or source of income to pay the loan.	3.70	0.88	High
4	Capable of paying the loan.	4.23	0.65	Very High
TOTAL		4.03	0.51	High

The respondents generally had a high attitude toward credit investigation with a total mean of 4.03, which may indicate that the attitude toward Credit Investigation of the borrowers' loan payment is evident—having the capacity to pay loans with mean of 4.23, is very high.

4.3. Significant Difference between the Aptitude and Attitude of Borrowers toward Loan Payment

The demographic profile of the respondent's highly differs significantly from borrowers' attitudes is the type of savings. On the other hand, educational attainment held that it differs significantly from borrowers' attitudes, with the post hoc test indicating that a significant difference lies between primary and secondary. However, for the income level, only the timeliness indicator differs significantly. Income has a significant influence on borrowers' behavior. However, the attitude of the borrowers is still that they do not differ significantly. Supported by the study findings of Sanglay et al. (2021), borrowers with high income levels are expected to pay their loans on time. Lastly, regarding the number of dependents, age, and type of assets, the mean comparison of borrowers' attitudes does not differ significantly.

5. Conclusions and Recommendations

This study arrives at the following conclusions:

- The borrowers' aptitude (demographic profile) in Boston, Davao Oriental, has a high to moderate potential for loan repayment. Most borrowers are between 31 and 40 years old and are married, indicating shared incomes and financial obligations.
- Borrowers in Boston and Davao Oriental exhibited an exceptionally positive attitude towards loan payments. The high total mean scores across various aspects, such as timeliness, credit investigation, ease of payment, and willingness to pay, indicate that the borrower's attitude towards loan payment is evident. Therefore, borrowers have a strong commitment and responsible mindset toward fulfilling their loan obligations.
- There was a significant difference in the borrowers' aptitude (educational attainment and type of savings) and attitude towards loan payment. Conversely, there was no significant difference in the borrowers' aptitude (marital status, number of dependents, age group, and level of income) or attitude toward loan payment.

The research has shown that borrower characteristics influenced their attitudes toward repaying loans. Microfinance institutions may, therefore, innovate their lending policies and repayment plans depending on the clients' backgrounds by providing different repayment schedules or more lenient terms for borrowers with lower educational qualifications, offering training programs and individual counseling sessions to each borrower to ensure everyone understands the loan terms and other conditions attached to its repayment. Borrowers are advised to be transparent about their financial positions, academic histories, and potential barriers that hinder them from settling their debts

Further, future researchers may explore the reasons behind the insignificant influence of some demographic factors (marital status, number of dependents, age level, types of assets, and income level) on borrowers' attitudes. They may also widen the scope to see if the significance between the forgoing aptitude (demographic profile) and attitude changes. More tailored and effective interventions can be developed to promote responsible borrowing and successful loan repayment by better understanding these contextual factors.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

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