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Lending Policies and Credit Access in Relation to Perceived Socio-Economic Effect to Clients of Formal Financial Institutions

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Abstract: **The provision of credit has increasingly been regarded as an important tool for raising the incomes of rural populations, mainly by mobilizing resources to more productive uses. Credit is the borrowing capacity of an individual or company. This study was intended to assess the lending policies and credit access of formal financial institutions in relation to socio-economic effect to clients in Botolan Zambales, Philippines. Descriptive research design was employed with a quota of Thirty (30) residents in Botolan availing loans using a questionnaire in data gathering. It includes determining the profile variables as well as the lending policies, access to credit, and the socio-economic effect to the client. It was found out that the respondents perceived "very strongly agree" on perception about credit and perceived "strongly agree on types and purpose of the loan, respectively. Perceived "very strongly agree" on the socio-economic effect to the client. It was also perceived to have a significant relationship between the lending policies of formal financial institutions and the clients' socio-economic aspect. Therefore, proper implementation of policies can help an organization to succeed; customers should be treated with respect because they the blood of every business.**

Keywords: **lending policies, socio-economic, formal financial institutions, descriptive research, Zambales Philippines.**

I. INTRODUCTION

The Formal Financial Institutions is an indispensable financial service sector supporting development plans through channelizing funds for the fruitful purpose, mobilizing and controlling flow of funds from surplus to deficit units and supporting financial and economic policies of the government. The success of banking is assessed based on profit and quality of assets it possesses. Even though bank serves social objective through its priority sector lending, mass branch networks and employment of many people, maintaining quality asset book and continuous profit making is important for banks continuous growth. Bank loans are one of the most important long-term financing sources in many countries [1].

The provision of credit has increasingly been regarded as an important tool for raising the incomes of rural populations, mainly by mobilizing resources to more productive uses. In accordance with their policies set forth in Financial Institution credit defines as contractual the agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company. However, at low levels of income, the accumulation of such capital may be difficult. Under such circumstances, loans, by increasing family income, can help the poor to accumulate their own capital and investing employment-generating activities.

As development takes place, one question that arises is the extent to which credit can be offered to the rural poor to facilitate their taking advantage of the developing entrepreneurial activities. The generation of self-employment in non-farm activities requires investment in working capital. Evidently, despite efforts to overcome the widespread lack of financial services, especially among smallholders in developing countries, and the expansion of credit in the rural areas of these countries, the majority still have only limited access to bank services to support their private initiatives. Commercial banks and other formal institutions fail to cater for the credit needs of smallholders, however, mainly due to their lending terms and conditions. It is generally the rules and regulations of the formal financial institutions that have created the myth that the poor are not bankable, and since they can't afford the required collateral, they are considered creditworthy.

In this study, there are several formal financial institutions that have been founded in Botolan, Zambales and they are often categorized in accordance with their purpose. This study was aimed at empirically analyzing the credit policies in the rural financial markets with the view of establishing their role in determining the access of clients to financial services from both formal sources in Botolan, Zambales. Now, let us individually know how each of lending institutions conducts their individual rules and policies.

A. Hypotheses:

1. There is no significant difference between lending policies and credit access of formal financial institutions when grouped according to profile variables.

2. There is no significant relationship between lending policies and credit access in the perceived socio-economic effect.

B. Significance of the Study:

This study is to find out the extent and effects of every Financial Institution's Lending Policies and access to Credit when they are targeting their own Credit sources particularly in Botolan, Zambales. To the community, within the vicinity of Botolan, Zambales, and this research will inform and give them the better understanding and awareness how to enter carefully in Credit Institutions in their town. To the management of financial institutions, this research study will help them to improve and develop their strategic plans and ways how to deal socially and financially to their prospective clients. And to the other researchers, this study will serve as the basis and reference to the students' understanding and ideas which can be used in the same studies they will be conducting.

C. Related Literature:

According to [2], "The State of Small Business Lending" Is there a gap in credit access for small business; the analysis suggests that the credit gap is due to a "perfect storm" of problems.

Generally, large banks use standardized quantitative criteria to assess loan applications from small firms, where small banks favor qualitative criteria based on their loan officers' personal interactions with loan applicants. The differing approaches of large and community banks are confirmed by experience and in the economic literature.

The online banking market is likely to continue to grow, disrupting traditional ways of lending to small businesses, and this will create both opportunities and risks for policymakers and regulators. Structural issues make it more difficult for community banks to fill market gaps in small business lending. New entrants are innovating and using technology in ways that improve access, the time needed for delivery of capital, and the overall borrower experience. The policy challenge is to ensure that these new marketplaces have sufficient oversight to prevent abuse, but not too much oversight that the innovation is dampened or delayed. The potential of these market disruptors to fill the gaps in small business lending is high, and if they are successful, small businesses will have more opportunity to what they do best—grow the American economy and create jobs [2].

A model of the neoclassical credit market postulates that the terms of credits clear the market. The theory postulates that if collateral and other pertinent restrictions remain given, then it is only the lending rate that determines the amount of credit that is dispensed by the banking sector. Therefore with an increasing demand for credit and a fixed supply of the same, interest rates will have to rise. Any additional risk to a project being funded by the bank should be reflected a risk premium that is added to lending rate to match the increasing risk of default. Subsequently, there exists a positive relationship between the default probability of a borrower and the interest rate charged on the advance. It is thus believed that the higher the failure risks of the borrower, the higher the interest premium [3].

[4] Recommended that borrowers should be screened especially by banking institutions in form of credit assessment. Collection of reliable information from prospective borrowers becomes critical in accomplishing effective screening as indicated by symmetric information theory. Qualitative and quantitative techniques can be used in assessing the borrowers although one major challenge of using qualitative models is their subjective nature. However, according to [4], borrowers attributes assessed through qualitative models can be assigned numbers with the sum of the values compared to a threshold. This technique minimizes processing costs, reduces subjective judgments and possible biases. The rating systems will be important if it indicates changes in expected level of credit loan loss

According to [5], bank credit channel has focused on two issues. The first issue centered whether there are categories of borrowers who depend on bank lending in that any change in banks' willingness to lend immediately affects their investment and spending decisions. The other issue is whether monetary policy changes directly constrain bank lending to borrowers. Both conditions are necessary for bank lending to play a special role in the monetary transmission mechanism.

[6] Examines predictors of the lending behavior of Nigerian Banks. The study considers the volume of deposits, foreign exchange, investment portfolio; minimum cash reserve ratio, lending rate, liquidity ratio and GDP. Utilizing time series data for the period 1980-2005, the vector error correction estimates indicate that while the coefficients of foreign exchange, investment portfolio, deposits and liquidity ration have significant effects on the lending volumes, the coefficients of lending rate and minimum cash reserve ratio were insignificant implying that monetary policy instruments do not affect bank lending volumes in Nigeria. The study does not, however, consider collateral as one of the explanatory variables; thus it is not possible to tell the effect of collateral requirements on the bank lending behavior in Nigeria.

II. METHODOLOGY

This study is a descriptive research. This involves the statistics in determining the perception of the respondents about the lending policies of the Formal Financial Institutions and the access to credit of the small-scale enterprises in Botolan, Zambales. The descriptive method involves the collection of data in order to test the hypothesis or to answer questions concerning the current status of the subject of the study. Likewise, a descriptive survey aims to describe the nature of a situation which exists at the time of the study and explore the cause of particular phenomena or to answer the questions concerning the current status of the subject of the study.

The respondents were thirty bank customers using purposive sampling. The questionnaire was the main instrument in data gathering, it was personally distributed by the researchers and explained to respondents the significance and purpose of the study for the better understanding of the study.

Data gathered are tabulated and analyzed using the statistical tool such as frequency and distribution, weighted arithmetic mean, ANOVA, correlation, and Likert scale; 5 being the highest as excellent/strongly agree, 4 as very good/agree, 3 as good/moderately agree, 2 as satisfactory/disagree, and 1 as poor/strongly disagree.

III. RESULT AND DISCUSSION

A. Profile of the Respondents:

Age:

Table 1 below shows the frequency and percentage distribution of the respondents according to their age.

TABLE 1 FREQUENCY AND PERCENTAGE DISTRIBUTION OF THE RESPONDENTS ACCORDING TO AGE

Age	**Frequency (*f*)**	**Percentage (%)**
18-31	10	33.30
32-45	13	43.30
46-59	7	23.30
Total	**30**	**100.00**
Mean of Age = 37.10 years old		

The age ranging 32-45 years old has the highest frequency and age ranging 46-59 years old has the lowest frequency. This implies that the respondents belong to early adulthood. They are the most responsible and who are engaged in family life and think that financial institutions could help them survive and succeed.

Sex:

Table 2 below shows the frequency and percentage distribution of the respondents according to their sex.

TABLE 2 FREQUENCY AND PERCENTAGE DISTRIBUTION OF THE RESPONDENTS ACCORDING TO SEX

Sex	Frequency (*f*)	Percentage (%)
Male	8	26.70
Female	22	73.30
Total	**30**	**100.00**

Female respondents have the highest frequency than male. Based on the results, the majority are female, it is Filipino culture that women are handling the family budget, they are responsible for the needs and expenditures of the family, somewhat they are the most who are engaged in fund loaning.

Civil Status:

Table 3 below shows the frequency and percentage distribution of the respondents according to their civil status.

TABLE 3 FREQUENCY AND PERCENTAGE DISTRIBUTION OF THE RESPONDENTS ACCORDING TO CIVIL STATUS

Civil Status	Frequency (*f*)	Percentage (%)
Single	13	43.30
Married	15	50.00
Separated	2	6.70
Total	**30**	**100.00**

Gleaned from the table that majority of the respondents are married, it has the highest frequency than those of separated with the lowest frequency. This means that engaged in loaning are mostly family person; they use the fund to improve the life of their family, such as education, small business, family expense, etc.

Monthly Net Salary:

Table 4 below shows the frequency and percentage distribution of the respondents according to their monthly net salary.

TABLE 4 FREQUENCY AND PERCENTAGE DISTRIBUTION OF THE RESPONDENTS ACCORDING TO MONTHLY NET SALARY

Monthly Net Salary	Frequency (*f*)	Percentage (%)
2500 below	2	6.70
2501-5000	4	13.30
5001-7500	3	10.00
7501-10000	10	33.30
100001-12500	2	6.70
12501 above	9	30.00
Total	**30**	**100.00**
Mean of monthly net salary = P9,000.50		

The data revealed that most of the respondents have a monthly net salary of ranging from P7,501-P10,000. On the other hand, monthly net salary ranging 2,500 below and 10,001-12,500 has the lowest frequency. These are the people that are capable enough to pay monthly amortization on loan.

Occupation:

Table 5 below shows the frequency and percentage distribution of the respondents according to their occupation.

TABLE 5 FREQUENCY AND PERCENTAGE DISTRIBUTION OF THE RESPONDENTS ACCORDING TO OCCUPATION

Occupation	**Frequency *(f)***	**Percentage *(%)***
Business owner	11	36.70
Tricycle driver	1	3.30
Farmer	2	6.70
Truck driver	2	6.70
Others	14	46.70
Total	**30**	**100.00**

The results revealed that the respondents' occupations are being employed to various private and government agencies falls from others with the highest frequency while being a tricycle driver has the lowest frequency in terms of occupation.

B. Description on the Respondents' Perception towards the Lending Policies of Formal Financial Institutions:

Lending Policies:

Table 6 below shows the description of the respondents' perception towards formal institutions' lending policies.

TABLE 6 PERCEPTION OF THE RESPONDENTS TOWARDS LENDING POLICIES

Lending Policies		**Weighted Mean**	**Qualitative Interpretation**
1	Interest rates on loans	4.57	Excellent
2	Levying of service charge, fines, etc.	4.27	Excellent
3	Related services with the loan product	4.23	Excellent
4	Terms and conditions	4.37	Excellent
5	Speed and promptness in credit delivery	4.23	Excellent
6	Loan documentation process	4.33	Excellent
7	Maximum and minimum loanable amount	4.43	Excellent
8	Credit investigation procedures	4.40	Excellent
9	Transactions cost for the borrower	4.27	Excellent
10	Collection policy	4.30	Excellent
11	Borrower grievance handling	4.20	Excellent
Overall Weighted Mean		**4.33**	**Excellent**

The respondents admitted that all the lending policies of formal financial institutions are excellent; this means that in conforming to lending regulations and laws. Lending policies are of significance in the transition of the monetary policy into the economy; it may influence the movement of loan supply.

C. Description on the Respondents' Perception towards Access to Credit of Formal Financial Institutions:

Types of Loan:

Table 7 below shows the respondents' perception towards types of loan offered by the financial institutions.

TABLE 7 PERCEPTION OF THE RESPONDENTS TOWARDS TYPES OF LOAN

Types of Loan		Weighted Mean	Qualitative Interpretation
1	Agricultural loan	3.99	Strongly Agree
2	Housing loan	4.13	Strongly Agree
3	Personal loan	4.27	Very Strongly Agree
4	Secured loan	4.30	Very Strongly Agree
5	Small business loan	4.20	Very Strongly Agree
Overall Weighted Mean		**4.18**	**Strongly Agree**

The respondents admitted that they are very strongly agreed on the access of credit the formal financial institutions offered. The respondents can avail any type of the loan the institution offers. If the mobilization of any types of loans by the financial institutions is higher, the higher level of facilitation and support.

Purpose of Loan:

Table 8 below shows the description of the respondents' perception towards purpose of the loan. Based on the results, the respondents are strongly agreed on the access to credit as to the purpose of the loan. The loan they can avail can be used as to what their intended purpose is, according to them, it is a big help for them.

TABLE 8 PERCEPTION OF THE RESPONDENTS TOWARDS PURPOSE OF LOAN

Purpose of Loan		Weighted Mean	Qualitative Interpretation
1	For expansion of business	4.27	Very Strongly Agree
2	For additional working capital	4.27	Very Strongly Agree
3	For education	4.27	Very Strongly Agree
4	For health and wellness	4.27	Very Strongly Agree
5	For vehicle	3.90	Strongly Agree
6	For special event	3.97	Strongly Agree
7	For medical expenses	4.30	Very Strongly Agree
8	For furniture	3.80	Strongly Agree
9	For balance transfer/debt consolidation	4.10	Strongly Agree
Overall Weighted Mean		**4.13**	**Strongly Agree**

Every individual acquires loan for several purposes. Parents usually loan because of the medical needs as well as financial needs to support the education of their college students. The loan may grant additional funding capital to supports their education. Borrowing to pay for education is a sound decision for most parents because a loan is one of the vital financial supports.

Perception about Credit:

Table 9 shows the description of the respondents' perception towards credit.

TABLE 9 PERCEPTION OF THE RESPONDENTS TOWARDS PERCEPTION ABOUT CREDIT

Perception about Credit		Weighted Mean	Qualitative Interpretation
1	Do you consider credit a tool to support our financial needs?	4.23	Very Strongly Agree
2	Is lending necessary to our life?	4.27	Very Strongly Agree
3	Do you consider credit as your primary choice in terms of financial needs?	4.27	Very Strongly Agree
4	Do you consider credit as a solution to our personal economic problems?	4.30	Very Strongly Agree
Overall Weighted Mean		**4.27**	**Very Strongly Agree**

The respondents perceived "very strongly agree" on all indicators. The data discloses that the respondents very strongly agreed about the credit. It emphasizes that financial institutions really means a lot to need when it comes to financial needs. The driving factor of credit growth is to cater the clientele personal need economic needs. The number of nationalized and private financial institutions has increased significantly and credit is now not only an integral part of the consumers' lives in cities but also in smaller towns.

D. Test of Significant Differences between the Lending Policies and Credit Access according to Profile Variables:

Table 10 shows the test of differences between the lending policies of financial institutions according to profile variables of the respondents.

TABLE 10 ANOVA TEST OF SIGNIFICANT DIFFERENCES BETWEEN THE LENDING POLICIES AND CREDIT ACCESS ACCORDING TO PROFILE VARIABLES

Profile Variables	ANOVA TEST AT 0.05 level of significance			p value	Interpretation	Decision
	df	*f computed*	*f critical*			
Age	9	0.0469	5.3176	0.8339	Not Significant	Accept Ho
Sex	3	10.0639	18.5128	0.0866	Not Significant	Accept Ho
Civil Status	3	0.9859	18.5128	0.4253	Not Significant	Accept Ho
Monthly Net Salary	9	0.0567	5.3176	0.8765	Not Significant	Accept Ho
Occupation	11	0.4189	4.9646	0.5324	Not Significant	Accept Ho

Age as Variables- the p-value (0.8339) > α (0.05). Thus, the decision is to accept the null hypothesis. There is no significant difference between lending policies and credit access of formal financial institutions according to profile variables.

Sex as Variables- the p-value (0.0866) > α (0.05). Thus, the decision is to accept the null hypothesis. There is no significant difference between lending policies and credit access of formal financial institutions according to profile variables. Their perceptions are totally the same regardless if they are male or female.

Civil Status as Variables- the p-value (0.4253) > α (0.05). Thus the decision is to accept the null hypothesis. There is no significant difference between lending policies and credit access of formal financial institutions according to profile variables.

Monthly Net Salary as Variables- the p-value (0.8765) > α (0.05). Thus the decision is to accept the null hypothesis. There is no significant difference between lending policies and credit access of formal financial institutions according to profile variables.

Occupation as Variables- the p-value (0.5324) > α (0.05). Thus the decision is to accept the null hypothesis. There is no significant difference between lending policies and credit access of formal financial institutions when grouped according to profile variables.

E. Socio-economic Effect of Formal Financial Institutions on the Clients:

Table 11 shows the socio-economic effect of formal financial institutions to clients in accessing the credit.

Table 11 Perception of the Respondents towards Socio-economic Effect of Formal Financial Institutions to Clients

Perception about Credit		**Weighted Mean**	**Qualitative Interpretation**
1	My business expands because of loan	4.33	Very Strongly Agree
2	Loans give me sufficient fund to support my day to day business/life	4.30	Very Strongly Agree
3	There is a large effect on economic state of the business	4.40	Very Strongly Agree
4	It helps my livelihood more effectively	4.27	Very Strongly Agree
5	Loan helps my production/financial needs	4.37	Very Strongly Agree
Overall Weighted Mean		**4.33**	**Very Strongly Agree**

The respondents perceived "very strongly agreed" on all indicators. Based on the data, the respondents very strongly agreed that loan granted by formal financial institutions has positive results in them. Depending on credit is the prevalent practice as of today, among all clients. Since people over the time meet unending needs to their personal satisfactions.

F. Test of Relationship:

Table 12 below shows the test significant relationship between the lending policies of formal financial institutions and the socio-economic effect to the client.

Table 12 Correlations Test of Relationship between Lending Policies of Formal Financial Institutions and Socio-economic Effect

		Lending Policies	Socio-economic
Lending Policies	Pearson Correlation	1	.568**
	Sig. (2-tailed)		.001
	N	30	30
Socio-Economic	Pearson Correlation	.568**	1
	Sig. (2-tailed)	.001	
	N	30	30
**. Correlation is significant at the 0.01 level (2-tailed).			

The computed significant value of 0.001 which is lower than 0.01 Alpha Level of significance, therefore the null hypothesis is rejected; hence there is a significant relationship between the lending policies and socio-economic effect. The relationship lies on the proper implementation of policies formulated by the government rules and regulations regarding financial institutions. However, this is likely to affect the performance of the loan, the finding agreed with [7] who suggested that the most pervasive area of risk is an overly aggressive lending exercise. It is a hazardous practice to extend the lending term beyond the useful life of the corresponding collateral. Besides that, giving out loans to borrowers who are already overloaded with debt or possess unfavorable credit history can expose banks to unnecessary default and credit risk. In order to decrease these risks, banks need to take into consideration several common applicants' particulars such as debt to income ratio, business and credit history and performance record and for individual loan applicants their time on the job or length of time. [8] also point out that information exchange from multiple sources improves the precision of the signal about the quality of the credit seeker. As a result, the default rate reduces. Credit competition for borrowers strengthens the positive effect of information sharing on lending: when credit markets are competitive, information sharing reduces the informational interest charged and increases credit competition, which in turn leads to increased lending.

IV. CONCLUSIONS

Lending policies of financial institutions are very vital to customers; it should be well-defined and accessible to individuals that have the capabilities to pay the obligation in a specified period. The implementation of policies depends on the companies on how they perceived the client and its success. In this study, there are several formal financial institutions that have been founded in Botolan, Zambales and they are often categorized in accordance with their purpose. Based on the results, the respondents were very strongly agreed on the perceived socio-economic effect of lending policies and accessibility, on the other hand, a significant relationship also exists on lending policies and socio-economic effect. Moreover, the majority of financial institutions being locally owned have customized the lending policies to fit the local market and to gain a competitive edge. Therefore, the financial institution may use the Central bank's strict lending policies based on the prevailing economic environment as this will ensure uniformity in the administration of credit facilities. The ability and qualifications of the credit officer is of importance in assessing the creditworthiness of the borrower; banks staff should be given occasional training to equip them with the relevant skills as this will go a long way in reducing the levels of non-performing loans among commercial banks, as well as, proper implementation of policies can help an organization to succeed; customers should be treated with respect because they the blood of every business.

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