



Changes in Customer Preferences Towards Loans Due to Interest Rate Differences

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Abstract – This study examines the impact of interest rate differences on customer preferences towards loans in the modern financial environment. With increasing financial awareness and easy access to information, customers have become more cautious and analytical while making borrowing decisions. The primary objective of the research is to understand how variations in interest rates influence loan demand and the selection of financial institutions. The study is based on primary data collected from 100 respondents using a structured questionnaire in Pune city. The analysis reveals that interest rate is the most significant factor affecting customer choice, followed by EMI affordability and repayment flexibility. It was observed that customers actively compare loan options and are willing to switch banks to avail lower interest rates. The findings also indicate that higher interest rates tend to reduce loan demand, while competitive pricing attracts more borrowers. Furthermore, the study highlights the growing importance of transparency, digital platforms, and customer-centric services in the lending industry. Although interest rate remains the dominant factor, other elements such as service quality, processing time, and institutional trust also contribute to decision-making. The research concludes that financial institutions must adopt competitive interest rate strategies and flexible loan products to meet evolving customer expectations. The study provides valuable insights for banks, policymakers, and researchers in understanding borrowing behavior and improving lending practices.

Keywords – Interest Rates, Loan Demand, Customer Preferences, Borrowing Behavior, Financial Institutions.

I. INTRODUCTION

In the modern financial system, loans play a crucial role in fulfilling the financial needs of individuals, businesses, and governments. Whether it is purchasing a house, financing education, buying a vehicle, or meeting personal expenses, loans provide necessary financial support. One of the most important factors that influence borrowing decisions is the interest rate, which represents the cost of borrowing money. Interest rates are determined by various factors such as inflation, monetary policy, economic conditions, and decisions of the Reserve Bank of India. When interest rates increase, the cost of borrowing rises, leading to a decline in loan demand. On the other hand, when interest rates decrease, borrowing becomes cheaper, encouraging more customers to take loans.

In recent years, fluctuations in interest rates have significantly impacted customer preferences toward different types of loans such as home loans, personal loans, and vehicle loans. Customers today are more aware and informed due to digital platforms, online comparison tools, and financial literacy. As a result, they actively compare interest rates offered by different banks and financial institutions before making borrowing decisions. This study focuses on analyzing how changes in interest rates influence customer preferences toward loans. It aims to understand whether customers shift their choices based on interest rate differences and how sensitive they are to such changes.

Objectives Of the study

- To Analyze the Impact of Interest Rate Differences on Customer Loan Preferences

- To Study Customer Awareness Regarding Interest Rates
- To Identify the Factors Influencing Borrowing Decision
- To Examine Customer Sensitivity Towards Interest Rate Changes
- To Evaluate the Relationship Between Interest Rates and Loan Demand

II. LITERATURE REVIEW

The review of literature helps in understanding previous research work related to interest rates and customer borrowing behavior. It provides a theoretical base for analyzing how changes in interest rates influence customer preferences towards loans. Various researchers have studied the relationship between credit markets, interest rates, and consumer decision-making. Interest rates play a crucial role in determining the demand for loans. When interest rates are low, borrowing becomes more affordable, which encourages individuals and businesses to take loans. On the other hand, higher interest rates increase the cost of borrowing and reduce loan demand. This relationship has been widely discussed in financial literature, where interest rates are considered a key determinant of credit demand. (Reference: Frederic S. Mishkin, 2007)

The concept of credit availability and lending behavior is also influenced by the structure of financial institutions. Research shows that banks with strong customer relationships tend to offer better credit terms, which affects customer preferences. Customers often prefer institutions that provide flexible loan options and competitive interest rates. This highlights the importance of relationship lending in shaping borrowing decisions. (Reference: Allen N.



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Berger & Gregory F. Udell, 2002) In imperfect markets, credit rationing occurs when lenders restrict the supply of loans despite high demand. This situation arises due to information asymmetry between borrowers and lenders. As a result, interest rates alone may not determine loan availability, and customers may not always get loans even if they are willing to pay higher rates. This affects customer preferences and decision-making. (Reference: Joseph E. Stiglitz & Andrew Weiss, 1981)

III. RESEARCH METHODOLOGY

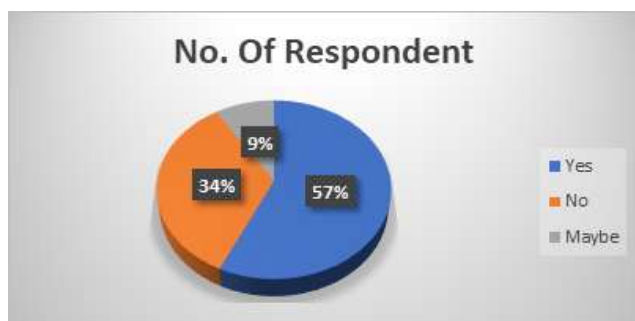
The present study adopts a descriptive research design to analyze the impact of interest rate differences on customer preferences towards loans. Both primary and secondary data sources have been utilized to ensure a comprehensive understanding of the research problem. Primary data was collected through a structured questionnaire distributed among 100 respondents selected using a convenience sampling method. The sample includes individuals from different age groups, occupations, and income levels, providing a diverse perspective on borrowing behavior. The study is geographically limited to Pune city, offering insights into urban customer preferences.

Secondary data was gathered from various sources such as books, research journals, financial reports, and official websites of institutions like the Reserve Bank of India. The questionnaire consisted of multiple-choice and Likert scale questions covering areas such as awareness of interest rates, loan preferences, EMI affordability, and factors influencing loan decisions. The collected data was analyzed using basic statistical tools including percentage analysis, tabulation, and graphical representation through charts. The research was conducted over a period of three months, ensuring sufficient time for data collection and analysis. However, certain limitations such as a small sample size, use of convenience sampling, and restriction to a single geographic area may affect the generalizability of the findings.

IV. DATA ANALYSIS

1. Are you willing to switch banks for lower interest rates?

Rate	No. Of Respondent
Yes	57
No	34
Maybe	9



Interpretation

The pie chart shows the responses of participants categorized into Yes, No, and Maybe. A majority of the respondents (57%) selected “Yes,” indicating that most participants have a positive opinion or agreement toward the subject of the study. Meanwhile, 34% of the respondents chose “No,” showing that a considerable number disagreed with the statement. Only 9% selected “Maybe,” which reflects a small level of uncertainty among participants. Based on the hypothesis, the null hypothesis stating that there is no significant preference among responses is rejected. The alternative hypothesis is accepted because the “Yes” response has the highest percentage compared to the other categories. Therefore, the findings conclude that respondents generally show a favourable attitude toward the topic under study.

V. HYPOTHESIS TESTING (CHI-SQUARE TEST)

Hypotheses Null Hypothesis (H₀):

There is no significant relationship between interest rate differences and customer preferences towards loans.

Alternative Hypothesis (H₁):

There is a significant relationship between interest rate differences and customer preferences towards loans.

3. Statistical Tool Used

The Chi-Square (χ^2) Test of Independence is used to test the relationship between two categorical variables: Interest Rate Impact (Agree/Disagree) Loan Decision Preference (Affected/Not Affected)

From the survey question:

“Do interest rate changes affect your decision to take a loan?”

Category	Observed Frequency (O)
Affected (Agree + Strongly Agree)	87
Not Affected (Neutral + Disagree)	17
TOTAL	100

Expected Frequency (E)

If there is no relationship (H₀ true), responses should be equally distributed:

Expected Frequency (E) = Total / Categories = 100 / 2 = 50 each

Category	Observed (O)	Expected (E)	O - E	(O - E) ²	(O - E) ² / E
Affected	87	50	37	1369	27.38
Not Affected	13	50	-37	1369	27.38
TOTAL	100	100	-	-	54.76

At 5% significance level ($\alpha = 0.05$) and df = 1:

Table value of $\chi^2 = 3.84$

If Calculated $\chi^2 >$ Table Value, reject H₀

Here: 54.76 > 3.84



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Final Decision

Null Hypothesis (H_0) is RejectedAlternative Hypothesis (H_1) is Accepted

VI. Findings

- Most customers consider interest rate as the most important factor while taking a loan.
- Customers are highly sensitive to changes in interest rates.
- Lower interest rates increase the demand for loans.
- Higher interest rates discourage customers from borrowing.
- Customers prefer loans with lower EMI amounts.
- Majority of respondents compare different banks before selecting a loan
- Many customers are willing to switch banks for better interest rates. Customers show mixed preference between fixed and floating interest rates.
- Financially aware customers make better and informed decisions.
- Apart from interest rates, factors like loan tenure, processing fees, and service quality also influence decisions.
- Economic policies by the Reserve Bank of India indirectly affect loan preferences.

VII. SUGGESTIONS

- Financial institutions should provide flexible EMI options based on customer income levels.
- Customers should be given clear and transparent information about interest rates and charges.
- Banks should reduce hidden charges and processing fees to increase customer trust.
- Financial institutions should improve customer service and support for better satisfaction.
- Awareness programs should be conducted to improve financial literacy among customers.
- Customers should be encouraged to compare loan options before making decisions.
- Banks should offer both fixed and floating interest rate options to suit different customer needs

VIII. CONCLUSION

The present study titled “Changes in Customer Preferences Towards Loans Due to Interest Rate Differences” was conducted to understand how variations in interest rates influence customer borrowing behavior and decision-making. Based on the analysis and interpretation of the data collected from respondents, it can be concluded that interest rates play a significant role in shaping customer preferences towards loans. Customers are highly sensitive to changes in interest rates, and even small differences can impact their choice of loan products. Lower interest rates encourage customers to borrow more, while higher interest rates tend to discourage borrowing due to the increased cost of repayment.

The study also reveals that customers are becoming more aware and informed in their financial decisions. They actively compare different loan options offered by banks and financial institutions before making a final choice. Many customers are willing to switch from one lender to another in order to avail better interest rates, which highlights the increasing competition in the financial sector. Along with interest rates, factors such as EMI affordability, loan tenure, processing fees, and quality of service also influence customer preferences, although interest rate remains the most dominant factor.

Furthermore, the study indicates that financial awareness plays an important role in decision making, as customers with better knowledge are more likely to evaluate different options and select the most suitable loan. Changes in monetary policies by institutions like the Reserve Bank of India indirectly affect customer behavior by influencing interest rates and loan availability. The hypothesis testing conducted in the study confirms that there is a significant relationship between interest rate differences and customer preferences towards loans, leading to the rejection of the null hypothesis and acceptance of the alternative hypothesis. In conclusion, the study emphasizes the importance for banks and financial institutions to offer competitive interest rates, transparent policies, and customer-friendly services to attract and retain customers. Understanding customer preferences is essential for developing effective loan products and maintaining a strong position in the competitive financial market.

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