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THE FACTORS INFLUENCE BORROWERS IN CHOOSING HOUSING LOAN

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ABSTRACT

A competitive environment is created among conventional and Islamic banking system in Malaysia. Recently, many studies have investigated the variations in the performance of Islamic and conventional banking in various regions of the world (Salman, & Nawaz, 2018). Apart from that, lack of studies aims to know the choice of housing loan chosen by Malaysian and the characteristics of the loans. Thus, this research aims to determine the main factors that influence the borrowers in choosing housing loan. The respondents are adults over 20 years old who live or work in Kuantan, Pahang and have gone through a housing loan process. The study approach involves distributing out a survey questionnaire to the target respondents by face to face and online. Mean score analysis is used to analyse the data. The result shows fair terms and conditions, terms and condition well explained, and monthly repayment amounts is not burdensome are main factors influencing borrowers in choosing housing loan. Therefore, this research give benefit to individual especially for the first-time home buyer who can aim to apply for the most suitable housing loan.

Keywords: *housing loan, conventional, Islamic, factors,*

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INTRODUCTION

Housing loans are a complex issue in Malaysia that involves a number of variables. According to one study, it's crucial to take into account the variability of loan-to-value (LTV) when predicting home loan failure (Saha, Eam, & Yeok, 2022). A different study highlights the necessity of government action in the provision of affordable housing, as private developers might impose unnecessary limitations in order to increase profits (Olanrewaju, & Idrus, 2019). The analysis cites barriers to government participation, including shifts in the project's location and scope, strict development criteria, and challenges with loan issuance and instalment collection. More, according to Soon, A., and Tan, C. (2019), affordability and financial exclusion are major issues in the Malaysian property market. The loan accessibility and affordability may be impacted by elements including high interest rates, inflation, and volatile housing prices.

Hence, this study aims to determine the factors influencing the borrowers in choosing housing loan in Kuantan, Pahang. The qualities are thought to play a role in the decision to choose a home loan. In addition, this study is carried out in Kuantan. This is due to Kuantan's status as a city that is somewhere between an urban and a suburban area. It is neither overly exposed to big growth nor underdeveloped.

LITERATURE REVIEW

A housing loan, also known as a home mortgage loan, is a type of loan provided by banks or other financial organizations that is secured by real estate, according to Yusof, Usman, Mahfudz, and Arif (2018). It involves a contract between the borrower and the lender, whereby the borrower agrees to take funds to purchase a home in exchange for a promise to pay back the lender with agreed-upon interest and principal instalments (ibid, 2018). The borrower is prohibited from selling the property without the lender's permission due to a lien that the lender has on it (ibid, 2018).

Type of Housing Loan

Conventional housing loan

A typical housing loan is a mortgage obtained through a bank or other financial institution to pay for the acquisition of real estate (Marinovic, 2020). In typical housing loans, the borrower agrees to make monthly principal and interest payments over a certain time period, and the loan is frequently secured by the real estate (ibid., 2020). These loans are subject to interest rate risk, and changes in interest rates may have an impact on the term and degree of convexity of the loan, which may have an effect on how banks manage their assets and liabilities (Tang, 2021).

Islamic home financing

According to Idris, Bahari, and Ahmad (2022) Islamic house finance is a sort of home financing offered by Islamic banks and adheres to Islamic standards. With repayment schedules based on profit-sharing or rental agreements rather than just interest, Islamic housing financing offers mortgages or loans secured by real estate (Amin, 2008). Islamic home financing provides an alternative for those looking for options for home financing that are in line with their religious beliefs.

Factors Influencing the Borrower in Choosing Housing Loan

Interest rate

The interest rate of the loan is one of the factors that could result in exclusion of house finance. Faris Abdullah, (2019). According to a study in India, Omar A.P. et al. (2019), interest rates on loans were one of the most significant factors that customers considered when choosing financial institutions for house loans), the competition in the country's home finance market has increased recently. In their examination of loan qualities and how they impact loan performance (Achieng, K., and Jagongo, A. 2019). They emphasized that interest rates are crucial when choosing loans since they may deter low-risk consumers from doing so due to higher costs and general risk. The choice of interest rate by borrowers revealed their price sensibility (Omar A.P. et al., 2019). According to Faris Abdullah, (2019), the conventional method considers interest rates to be a key determinant of loan approval.

Loan amount

According to Yoon, S., Kim, and Yoo, (2017), the characteristics of housing credit guarantee products showed that loan amount is a factor that influences the choice of mortgage credit guarantee products. The loan amount should be a crucial consideration for consumers when selecting the best mortgage credit guarantee package. Along with the factors affecting the volume of home loans, the loan amount and growth trend for property loans in Indonesia have been analysed (Nurpita, & Oktavia, 2021). According to Bandyopadhyay and Saha, (2011), the size of the loan has an impact on housing demand and home loan defaults in India.

Terms and condition

The size the amount of the loan, the borrower's profile, interest rates, the length of the loan, and the loan's specifications all have a big impact on Malaysian housing loan default (Saha, Eam, & Yeok, 2022). Financial institutions, especially banks and housing banks, are primarily responsible for offering housing loans and financing options (Kabine, 2022). In general, a number of factors, including borrower profiles, interest rates, loan tenure, and governmental laws, determine the terms and circumstances of home loans in Malaysia. These factors have an effect on housing affordability and financial risk.

Loan period

According to Ma, E., and Zubairy, S., (2020), the loan period is a factor that affects the demographic make-up of homeownership. The term of a home loan in Malaysia might change depending on a number of factors, including the borrower's preferences. How much mortgage debt is owing in relation to the value of the property depends on the length of the loan.

RESEARCH METHODOLOGY

To do research or gather data, sampling is the practice of selecting some individuals or objects from a larger group, according to Rodriguez-Ruiz, Almodóvar, and Nguyen, (2019), non-probability sampling is speedier and less expensive than probability sampling, according to Sikwibele and Mungoo, (2009). Non-probability sampling is widely employed in quantitative clinical research due to restrictions that forbid the use of probability samples. In quantitative research, non-probability sampling can be utilized to boost response rates. Mensah (Oteng-Abayie, 2022). Since non-probability sampling was used, there is no sample frame in this study. Any procedure in which there are different possibilities of selecting items from a sample is considered non-probability sampling. When non-probability sampling was used, the sample was chosen based on personal preference.

A set of questionnaires consist of three (3) parts which are Part A for the respondents' demographic, Part B for loan characteristics and Part C is for factors influencing borrowers to choose for housing loan. The researcher's approach involved random sampling. The study's target respondents are Kuantan, Pahang residents over 20 years old who have experienced in applying housing loans.

As of 2022, Kuantan has 265,955 residents that are over the age of 20 years old. Because the sampling criteria are older than 20 years old, a non-probability sampling method using non-random selection was adopted. To achieve a 95% accuracy level with a 5% margin of error, a minimum sample size of 384 persons is required. The results are analysed and interpreted using descriptive analysis and the factors are ranked based on mean calculated for each factor.

FINDINGS

The questionnaire was successfully responded by 401 respondents. However, due to the fact that 8 of the 401 respondents had never purchased a property, only 392 were included in the study. The respondents are getting lesser since there are 46 respondents were buying houses outside Kuantan, Pahang which is out of the requirement to be the respondents for this questionnaire. Hence, only 346 respondents were analyzed by the respondents.

Respondent Demographic

From the table below, the majority of respondents are from male which is a total of 231 people from 392 total respondents. Meanwhile, for females, there are 161 respondents from female gender. To conclude, the majority of respondents are highly from male gender.

Next, there are 5 categories of age which is the highest respondents are from 20 to 30 years old people. The totals of 20 to 30 years old people are 178 people. Next, for 31 to 40 years old, there are 86 people from 392 people are from that age. Meanwhile, respondents from age 51 to 60 years old are higher as much as 70 people than respondents from age 41 to 50 years old which are only 57 people only. Lastly, the group of age from more than 60 years old people, there are only 1 people.

More, majority of the respondents are married. There are 245 people respondents are married. Meanwhile, there are 147 people still single.

In addition, majority of education levels are from degree level as the total is 202 people Other than that, there are 110 people from diploma level. Meanwhile there are respondents from master and above level. The total of master and above is 36 people which are the lowest from other education level. For the SPM and below level of education level, there are 44 people from 392 respondents. To conclude, the majority of respondents are from degree level of education level.

The highest sector is people from private sector as much as 285 people. For government, there are 99 respondents who are works in government sector. Meanwhile, there are respondents that are not working. The total of people who are not working are 8 people.

From the information gathered, the majority of respondents are from group of monthly income from RM 5,001-RM 10,000 every month as the total is 168 people. Next, the second highest which are 142 people are from group that their monthly income is RM 2,501-RM 5,000. Other than that, there are 55 people from group of monthly income RM 1,501 – RM 2,500. Meanwhile from the group of monthly income RM 1,500 and below, there are 16 respondents. Lastly, there are 11 respondents are from group of monthly income more than RM 10,000.

Last but not least, the majority location of respondents have bought a house is at Mukim Kuala Kuantan with 131 people. Next, the second highest is located at Mukim Ulu Kuantan which there are 59 people. Then, it is followed by the location that located at Mukim Sungai Karang which are 55 people have bought house at the location. Moreover, there are 46 respondents bought their house outside of the Kuantan District. Other than that, there are 37 people bought their house at Mukim Beserah. Meanwhile, at Mukim Penor, there are 36 people bought their house at the location. Lastly, the least one that people bought house is at Mukim Ulu Lepar as there are only 28 people.

Table 1: Respondents Demographic

GENDER	
Male	231
Female	161
<i>Total</i>	392
AGE	
20-30 years old	178
31-40 years old	86
41-50 years old	57
51-60 years old	70
More than 60 years old	1
<i>Total</i>	392
STATUS	
Single	147
Married	245
<i>Total</i>	392
EDUCATION LEVEL	
SPM and below	44
Diploma	110
Degree	202
Master and above	36
<i>Total</i>	392
OCCUPATION SECTOR	
Government	99

Private	285
Not working	8
Total	392
MONTHLY INCOME	
RM 1,500 and below	16
RM 1,501-RM 2,500	55
RM 2,501-RM 5,000	142
RM 5,001-RM 10,000	168
More than RM 10,000	11
Total	392
LOCATION	
Mukim Beserah	37
Mukim Kuala Kuantan	131
Mukim Penor	36
Mukim Sungai Karang	55
Mukim Ulu Kuantan	59
Mukim Ulu Lepar	28
Outside District of Kuantan	46
Total	392

To Determine the Main Factors Influencing Borrowers in Choosing Housing Loan

Table 2 shows the first factors that influence the borrowers in choosing conventional housing loan is the terms and condition is fair to borrower. With the mean of 4.3079, none of the respondents from conventional housing loan disagree and strongly disagree with the statement that the terms and condition is fair to borrower. Next, the terms and condition is well explained become in the second rank. Only 3 respondents of conventional housing loan disagree with the statement. More is regarding the monthly repayment amount is not burdensome. The mean for the third factor is at 4.1937. Meanwhile, the factor that falls for the last is interest rate is fixed rate. It can be concluded that none of the respondents for conventional housing loan are getting fixed interest rate for their housing loan.

On the other hand, Table 3 shows the first factors that influence the borrowers in choosing Islamic home financing is the terms and condition is fair to borrower. With the mean of 4.3871, most of the respondents of Islamic home financing agree and strongly agree with the statement that the terms and condition is fair to borrower. Next, well explained terms and condition is in the second rank. The third rank fall for the monthly repayment amount is not burdensome. The mean for the third factors that influence the borrowers in choosing Islamic home financing is at 4.1935. Most of the borrower are not burden with the monthly repayment amount. Meanwhile, the tenth rank falls for the borrower is free from providing deposit. This conclude that the only small number of the respondents are fully funded with the home financing.

To sum up, both conventional housing loan and Islamic home financing are having the same top three (3) factors that influence the borrowers in choosing the housing loan. There are, the terms and condition are fair to borrower, terms and condition is well explained and the monthly repayment amount is not burdensome. However, the bottom factors that influence the borrowers in choosing the conventional housing loan is different. For conventional housing loan, the factor that least influence the borrowers in choosing the housing loan is the housing loan is offering fixed interest rate meanwhile for Islamic home financing, free from providing deposit became the least factor that influence the borrowers in choosing Islamic home financing.

Table 2: Rank for response from conventional housing loan borrowers

Rank	Factors	Mean
1	The terms and condition is fair to borrower	4.3079
2	The terms and condition is well explained	4.2
3	The monthly repayment amount is not burdensome	4.1937
4	The interest rate is reasonable	4.1397
5	The loan offers low interest rate	4.1333
6	The monthly repayment period ends before borrower retire	4.0317
7	The terms and condition is easy to understand	4.0127
8	The amount approved is according to first application	3.6381
9	The borrower is free from providing deposit	2.8413
10	The interest rate is fixed rate	1.3556

Table 3: Rank for response from Islamic home financing borrowers

Rank	Factors	Mean
1	The terms and condition is fair to borrower	4.3871
2	The terms and condition is well explained	4.2258
3	The monthly repayment amount is not burdensome	4.1935
4	The interest rate is reasonable	4.1613
5	The monthly repayment period ends before borrower retire	4.1290
6	The loan offers low interest rate	4.0968
7	The terms and condition is easy to understand	4.0968
8	The amount approved is according to first application	3.9677
9	The interest rate is fixed rate	2.0000
10	The borrower is free from providing deposit	1.8387

CONCLUSION AND RECOMMENDATION

The researcher found the first factor that influence the borrower in choosing conventional housing loan is the terms and condition is fair to borrower. Next, the terms and condition is well explained become in the second rank and the third rank falls for the monthly repayment amount is not burdensome. Meanwhile, the first factors that influence the borrowers in choosing Islamic home financing is the terms and condition is fair to borrower. Next, well explained terms and condition is in the second rank. The third rank fall for the monthly repayment amount is not burdensome.

To summarise, the main factors that influence the borrower in choosing both conventional housing loan and Islamic home financing are the same. There are the terms and condition are fair to borrower, the terms and condition is well explained, and the monthly repayment amount is not burdensome.

From the findings of this study, we recommend for future studies explore the financial literacy of borrowers in making loans, especially young adults. Future studies could test the financial literacy among young house buyers including their knowledge of housing loans, the consequences of each housing loan, and factors influencing their financial decision.

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