

Lending Rationale of Financial Institution and Fintech on the Perception of Borrowers: A Qualitative Study

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Abstract

The development of Financial Institutions including Financial Technology (Fintech) in providing loans to borrowers is increasingly important in the current business financing system. This study aims to determine the perceptions of borrowers by exploring their views on lending practices provided by financial institutions and fintech and identifying the factors that influence the institution's decision to provide loans to them. This study uses a qualitative research method by asking a number of questions to debtors in one of the Micro and Small and Medium Enterprises (MSMEs) communities in the city of Bandung, Indonesia. The questionnaire form is in the form of open-ended questions and is distributed to 47 MSMEs in the city with various types of business fields. The results show that the factors that influence the success of borrowers in obtaining credit from both financial institutions and fintech are the factors classified as 5 Cs of credit in terms of Character, Capacity, Capital, Collateral, and Conditions. All these factors are summarized as soft information and hard information, which are applied by financial institutions and financial technology institutions.

Alasan Peminjaman Lembaga Keuangan Dan Fintech Terhadap Persepsi Peminjam: Studi Kualitatif

Abstrak

Perkembangan Lembaga Keuangan termasuk Financial Technology (Fintech) dalam memberikan pinjaman nasabah semakin penting terutama terkait dengan sistem pembiayaan saat ini. Penelitian ini bertujuan untuk mengetahui persepsi peminjam dengan menggali pandangan mereka terhadap praktik pemberian pinjaman yang diberikan oleh lembaga keuangan dan fintech serta mengidentifikasi faktor-faktor yang mempengaruhi keputusan lembaga tersebut untuk memberikan pinjaman kepada mereka. Penelitian ini menggunakan metode penelitian kualitatif dengan mengajukan sejumlah pertanyaan kepada debitur salah satu komunitas Usaha Mikro dan Kecil dan Menengah (UMKM) di kota Bandung, Indonesia. Bentuk kuesioner berupa pertanyaan terbuka dan disebarkan kepada 47 UMKM di kota dengan berbagai jenis bidang usaha.

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INTRODUCTION

Loans are very beneficial for micro, small and medium enterprises (MSMEs) to run their business operations. By accepting loans from financial institutions, they can scale up their operations and expand their capacity to meet the needs of their customers. By expanding their business capacity, they can maintain the sustainability of their business operations. Besides, it also unlocks opportunities to upgrade their business to a higher level.

On the theoretical basis, loans are considered as financial leverage which is vital for a company to generate more revenue (Zutter & Smart, 2019). Financial leverage for developing companies will increase their profitability because it not only generates more revenue but also reduces tax payments from the tax deduction cost feature that comes from paying loan interest (Hillier et al., 2016). Thus, either in theory and practice, loans are essential for businesses, including MSMEs, to increase their capacity to generate greater profits and ensure their sustainability.

MSMEs are main economic actors, especially for developing countries, including Indonesia. With the number of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia reaching around 99.9% of the total business actors, and with a total labor supply of around 97% of the total workforce in Indonesia, they currently provide a considerable contribution around 60.4% of Indonesia's Gross Domestic Product (Statistics Indonesia (2019)). They are scattered in rural and urban areas with various types of businesses, ranging from agriculture, plantations, trade, services, and simple processing industries.

The growth and development of MSMEs in Indonesia cannot be separated from external funding providers i.e., financial institutions and fintech. Financial institutions in Indonesia are consisting of banks and non-bank financial institutions. The Indonesian banking industry includes commercial banks and rural banks (Indonesia Law Number 10 of 1998 concerning Banking). Meanwhile, non-bank financial institutions embrace venture capital, savings

and loan cooperatives, village credit fund institutions, pawnshops, factoring, and others. Their contribution in providing credit to MSMEs in Indonesia is very substantial through various financing products both for investment and working capital needs that have been utilized by MSMEs in Indonesia. Based on the data published by Statistics Indonesia (2019), the total outstanding commercial bank loans to MSMEs have reached IDR 1,107.2 trillion of the total loans of IDR 4,057.5. Meanwhile, loans extended to MSMEs from other financial institutions are around IDR 115.5 trillion out of its total loan of IDR 469.3 trillion.

Meanwhile, in the past decade, the development of financial technology (fintech) in Indonesia has also experienced a rapid increase with the number of fintech companies increasing every year. According to data from the Indonesia Financial Services Authority, the number of fintech companies operating in Indonesia is 161 companies with a total credit distribution of IDR 81.5 trillion (Indonesian Financial Services Authority, 2019).

Indeed, when comparing the MSMEs' loans proportion to the total loans in Indonesia, the figure is not in an ideal state constituting the proportion of MSMEs loans is still around 27.0% out of the total loans. However, the proportion of loans to MSMEs will increase over time if MSMEs can improve their performance, thus the trust of financial institutions to MSMEs is increasingly improving.

The low level of MSMEs Loans from banks and financial institutions on the one hand and the need for external capital or financing on the MSME side have become problems that we face today. This happens, because commercial banks and financial institutions expect certainty that the customers being financed are feasible and potentially profitable, while on the other hand, many MSMEs, especially those from Micro and Small Enterprises, are not yet bankable, using simple operational and financial records, do not yet have a good marketing strategy and still need assistance and partnerships from other parties.

Therefore, the problems faced by MSMEs, especially for micro-enterprises in obtaining credit or financing from financial institutions and banks are constrained by simple business management, business records that still need to be improved, marketing and production techniques constraints, lack of additional guarantees, so that in applying for credit to financial institutions it is still considered not feasible and therefore access to financing from financial institutions is still difficult.

The current condition of the loans provided to MSMEs in Indonesia, which is still not in the optimal level, has become one of the motivations for this research to evaluate the perspective of borrowers who succeeded in obtaining loans from financial institutions as well as fintech institutions in regards to take lessons learnt in practice to improve the loan volume to MSMEs.

Empirically, based on previous studies, several factors determine a debtor to obtain a loan from a financial institution successfully. These factors are the credit scoring system, relationship lending, demographic variables, financial condition, collateral, etc. (Petersen & Rajan (1994), Berger & Udell (1995), Roszbach (2004), Degryse & Ongena (2005), Jiangli et al. (2008), Turvey, et al. (2011), Grunert & Norden (2012), Yang (2014), Enimu et al. (2017)) Furthermore, there are also rather similar factors prevailing in fintech financing, namely Creditworthiness or Characteristics of financial strength, gender, social capital, credit score, disclosure of information, etc. (Diamond (1989), Okurut et al. (2010), Cornée et al. (2012), Herzenstein et al. (2008), Freedman & Jin (2008), Xu et al. (2015), Chen et al. (2016), Zhang et al., (2017), Jagtiani & Lemieux (2017), Han et al. (2018), Ravina (2019)). All of these studies are in accordance with the studies of Capon (1982), Turvey, et al. (2011), Prah (2017), & Wasiuzzaman et al. (2019). They conclude that these factors can be summarized concerning the principle of lending rationale or credit scoring through the 5 C's of Credit in practice.

If we differentiate that research into quantitative and qualitative research, we can reveal

that most research were conducted using quantitative research (See for instance: Petersen & Rajan (1994), Berger & Udell (1995), Roszbach (2004), Turvey, et al. (2011), Grunert & Norden (2012). Wasiuzzaman et al. (2019)).

Petersen & Rajan (1994) observe the importance of close relationship between small medium enterprises (SMEs) with their lenders in regards to enhance their possibility to obtain loans from banks. Berger & Udell (1995) highlight an analysis of relationship lending and its impact on bank loan contracts of small businesses in the United States. Roszbach (2004) studies the factors that are considered to be influenced on the loans granted as well as potential to default and survival in Swedish financial institutions during September 1994 to August 1995. Turvey, et al. (2011) analyze the application of the 7 C's of credit in the rural credit system in China. Meanwhile, Grunert & Norden (2012) study the effectivity of soft information and hard information on enhancing the bargaining power of borrowers to get loans from banks or financial institutions. Then, Wasiuzzaman et al. (2019) empirically investigate the association between the creditworthiness dimensions and access to finance of small and medium-sized enterprises (SMEs) in Malaysia.

Meanwhile in terms of qualitative method, we only found the research conducted by Capon (1982), & Prah (2017). Capon (1982) shed lights on the importance of credit scoring system and evaluate the prevailed credit scoring system by redeveloping the component of scoring which especially relate to economic factors and credit history factors. Meanwhile, Prah (2017) explore the lending process managed by Barclay Bank in Ghana.

The complete explanation about those quantitative and qualitative research can be found on the literature review section.

The problem found in literature is that most of previous research were generally conducted using a quantitative method, and the findings of studies resulted from qualitative means are difficult to find in the literature. Thus, the lack of literature confirming the findings of quantita-

tive methods with qualitative methods is also the motivation for this study. This study tries to fill in the gap by qualitatively examining the factors that are likely to have any impacts on the success of borrowers in obtaining loans especially from financial institutions, i.e., commercial banks, other financial institutions, and fintech.

Besides, this research does not only function to confirm the results of previous studies using a quantitative approach, but also through the development of a qualitative approach based on previous studies especially improving what have been done by Capon (1982), and Prah (2017).

In supporting the qualitative research method employed in this study, it is used the data of 47 the respondents or informants which are members of a community of the small-medium enterprises (SMEs) who received loans from traditional Financial Institution, i.e., commercial banks, rural banks, multi-finance institutions as well as financial technology institutions in Bandung City, Indonesia. They operate their businesses in various sectors such as culinary, trading, food, fashion, photocopy services, IT services, and digital branding services. Bandung City was chosen as the study object's premise since Bandung is also known as one creative industry city where the fashion and culinary industry has been growing during the decades. Beside, Bandung is also the capital of the most populous province in Indonesia.

In conjunction with the above explanation, this study formulates research question setting up as follows: According to the opinion of the perspective of the informants as borrowers of the lending facility, are lending rationales in terms of 5 C's of credit principle still applied in the credit application process by financial institutions and/or fintech?

This paper differs from previous empirical research on commercial loan rationing in that it elaborates primary data through qualitative surveys that reveal direct disclosure of the views of MSMEs' respondents about the factors that made them successful in obtaining credit, and what advice could be given to financial institutions and fintech in order their quality of service

in providing loans to their borrowers to be better. This study has a decisive advantage in terms of contributing to the literature in several good folds. First, this study uses a qualitative method by revealing answers from direct interviews to informants whose businesses are classified as MSMEs in the city of Bandung, Indonesia. Second, because this study uses a qualitative method, it does not try to generalize the findings but reveals the uniqueness of the results characterized by the informants. Besides, the results of this study are expected to provide different insights to complement previous empirical work by corroborating findings that generally use quantitative methods.

The findings show that based on their experience during the credit application process and obtaining credit from financial institutions and fintech, the majority of informants stated that the 5 Cs credit principles (Character, Capacity, Capital, Collateral, and Condition) are still applied in the credit process although there are two conditions namely fully implemented and not yet fully implemented. Also, they stated that among the 5 Cs of credit principles, the most important factors that should be analyzed by a financial institution or lenders in fintech are Capacity, Capital, and Character.

This paper is organized as follows: the first section is the introduction, then it is followed by the Literature Review, Research Method, and Findings. The last section concludes and provides recommendations.

Literature Review

Financial institutions contribute to economy in many ways. Some activities are in terms of collecting funds from surplus units and distributing funds in terms of credit to deficit units (Heffernan, 2009). The contribution of the institutions in providing loans or credit is regarded as the main activity for those institution in generating profit (Mishkin, 2016 and Saunders & Cornett, 2012). Deficit units benefit from loans provided by financial institutions to escalate their ability to operate their businesses and finally make profit.

In their brief explanation, Howells & Bain (2008) express the financial institutions' activity i.e. commercial banks in a balance sheet in Table 1. They explain that in general, financial institutions i.e. commercial banks organize activity of maturity transformation in balancing customer deposits, $C_b + D_b C_b + D_b$ in the loans to the money markets, Investments, Loans to public sector, and loans to general public (L_m, I_b, BL_g and BL_p L_m, I_b, BL_g and BL_p). All these activities are important in creating profit for them.

loans are in best condition (Heffernan, 2009). Some methods can be applied in assessing the potential customers' quality including using the principle of 5 C's of credit analysis, financial ratio analysis, analysis of cash flow, etc.

Special for the evaluation of small business lending, Saunders & Cornett (2012) have recommended that beside the credit scoring applied similar to those that are applied to mortgages and consumer loans, it is also evaluating the credit risk of the loans to reduce information asymmetry. This idea is also crucial in mi-

Table 1. Balance Sheet of Financial Institutions (i.e., Commercial Banks)

Assets		Liabilities	
Notes and coin	C_b	Capital and shareholder's funds	S_f
Deposits at the central bank	D_b	Customer deposits	D_p
Loans to the money markets	L_m		
Investments	I_b		
Loans to public sector	BL_g		
Loans to the general public	BL_p		

Source: Howells and Bain (2008)

The importance of loans in financial institutions has led the science of loan management in practice to assure that the management are properly performed (Macerinskiene & Ivaskeviciute, 2008). Since the failure in loan management would lead to the possibility of default in higher magnitude, hence soundness of loan management is very crucial to be adopted by financial institutions including commercial banks, non-bank financial institutions and fintech. Loan management comprises the activities since the very beginning of the events i.e. loan application process, requirements' completeness, site or company visit, credit analysis, loan decision and contract, loan disbursement, etc.

The loan process is one of the most important phases examined by financial institutions (commercial banks and non-banks' financial institutions) as well as lenders of the financial technology institutions. In a theoretical basis, all loan process is important, but the analysis of the creditworthiness of potential customers is very crucial as main tool for ensuring the quality of

investigate the risks of adverse selection and moral hazard problems that could lead to rise of the probability of default (Mishkin, 2016).

All those circumstances are main reasons for the importance of lending rationales in the phase of credit evaluation process, for instance by using 5Cs' of Credit principle to assure financial institutions could successfully choose potential borrowers in their loan management.

Previous Studies

Many authors have conducted studies on lending rationale applied by financial institutions or fintech. Before fintech was introduced to society, the traditional intermediary function was very satisfactory to be performed by commercial banks and other financial institutions. The lending rationale concept is well known through the 5 C's of credit principle concept and has been adopted for decades in the banking industry and financial institutions. Among the authors who have conducted lending rationale research in financial institutions are Capon (1982), Petersen

& Rajan (1994), Berger & Udell (1995), Roszbach (2004), Degryse & Ongena (2005), Jiangli et al. (2008), Turvey, et al. (2011), Grunert & Norden (2012), Yang (2014), Enimu et al. (2017), Prah (2017), Bellucci et al. (2019), Wasuzzaman et al. (2019).

Capon (1982) sheds light on the importance of credit scoring system and evaluates the prevailed credit scoring system by redeveloping the component of scoring which primarily relates to economic factors (exhibiting the ability to pay) and credit history factors (demonstrating a willingness to pay) of borrowers. Then, Petersen & Rajan (1994) observe the importance of the close relationship between small-medium enterprises (SMEs) with their lenders in regards to enhance their possibility to obtain loans from banks. By using the data from the National Survey of Small Business Finance collected by the U.S. Small Business Administration (SBA), they find the results that establishing the close relationship with lenders has a favourable benefit for SMEs to get better access to the availability of finance however it only affects less effective on the loan price. The findings of Petersen & Rajan (1994) has been supported by Berger & Udell (1995). Berger & Udell (1995) highlight an analysis of relationship lending and its impact on bank loan contracts of small businesses in the United States. The findings indicate that small businesses which have longer banking relationships can borrow funds with a lower rate and they are prone to provide less collateral that those of other small businesses. The results are suitable for the academic literature of financial intermediation roles provided by banks and financial institutions. The findings of the two studies mentioned above have also been supported by many other studies, including the work of Grunert & Norden (2012). Grunert & Norden (2012) study the effectivity of soft information and hard information on enhancing the bargaining power of borrowers to get loans from banks or financial institutions. By employing data from Germany and the USA, they find the evidence that soft information (i.e. management skills and character) can enhance borro-

wers' bargaining to get loans from banks and its effectivity is better than provided by hard information does. Peterson & Rajan (1994), Berger & Udell (1995), Grunert & Norden (2012) are conclusive stating that the relationship between borrowers and lenders are significant. Since the relationship lending is classified as soft information; thus, the relationship influences the borrowers' bargaining to get loans.

Roszbach (2004) studies the factors that are considered to have any influence on the loans granted as well as the potential to default and survival in Swedish financial institutions from September 1994 to August 1995. The findings suggest that there are some variables described as the determinants of the loans granted such as some demographic variables (living in a big city, divorce, male, married), taxable income (capital, income, house), guarantor, and outstanding loans.

Meanwhile, the importance of accounting disclosure and the audit quality related to the accessibility of lending has been studied by Jiangli et al. (2008) and Yang (2014). First, Jiangli et al. (2008) investigate the effects of relationship lending and accounting disclosure on the access to lending in countries during the crisis. The study results state that in Korea and Thailand, it is valuable for companies to have business relationships with fewer banks. However, in Indonesia and the Philippines, it is found that there was no correlation between the number of relationship banks with the availability of credit. In addition, there is a positive effect of accounting disclosures on credit availability in Indonesia, but it does not apply to the case Korea and the Philippines. Then, Yang (2014) observes the relationship between audit quality and collateral needed by banks for Chinese firms from 2005 to 2011. The study result states that there is a negative effect of audit quality on collateral use in practice. This finding is favorable to lenders in terms of their interest in reducing the credit risk.

Regarding the collateral issue, Degryse & Ongena (2005) scrutinize the impact of geographical distance between borrowers-banks on loan rates from loans facility for small busines-

ses in Belgium and find the results that there is a positive association between the distance of borrowers-banks with the loan rates. This finding is evidence of spatial price discrimination happened in bank loans that are favorable to the closer proximity. Related with the study, Bellucci et al. (2019) examine the relationship between the distance of borrower-lender on the collateral requirement in small business financing in Italy. They found evidence that based on the empirical data used; there is an inverse relationship between the distance and the collateral needed by financial institutions.

On the other hand, Enimu et al. (2017) analyze the factors that influence loan repayment of members of the microcredit financing group in Delta State Nigeria. The results show that age, household size, home income, level of education, amount of credit received, length of stay in their area, distance to credit sources, supervision, and disbursement lag are factors that are proven to have any impacts on microcredit repayment.

There are some researches, i.e. conducted by Turvey et al. (2011), Prah (2017), & Wasiuzzaman et al. (2019) which examine the implementation of the credit principle in terms of 7 C's of Credit and 5 C's of credit. Turvey et al. (2011) analyze the application of the 7 C's of credit in the rural credit system in China. 7 C's of credit principle is composed of Credit, Character, Capacity, Capital, Condition, Capability, and Collateral. By surveying 897 farm households in the provinces of Shaanxi and Gansu, and massive interviews of agricultural lenders in China during the summer and fall of 2009, they identified that all 7 aspect of credit is very fruitful and essential as a tool for evaluating the rural credit for the agricultural sector in China. Meanwhile, Prah (2017) explores the lending process managed by Barclay Bank in Ghana and find the evidence that the lending process in the bank is as follows: credit appraisal, collateral fulfilment, credit scoring, credit-evaluation, credit documentation, and disbursement. Then, the findings also state that the bank also applies 5 Cs covering character, credibility, capital, col-

lateral, and condition of the economy in their assessment of credit application and provide the recommendation that in regards to minimizing loan defaults, some procedures, i.e. credit scoring, relationship banking, past due reports, risk reports credit committee procedures, expert system, and financial ratio analysis on the prospective borrowers.

The most recent study examining the principle of 5Cs has been done by Wasiuzzaman et al. (2019). They empirically investigate the association between the creditworthiness dimensions and access to finance of small and medium-sized enterprises (SMEs) in Malaysia. By using the questionnaires to SMEs' owners in Kuala Lumpur and Selangor region and analyze it by quantifying the study by using SEM-PLS, the findings suggest that the Character of the owners has a significant effect on its access to finance, Condition of SMEs, and Collateral availability provided by SMEs are also significant in affecting on its access to finance with high magnitude, Capacity is also significant influencing on its access to finance albeit low magnitude, whereas Capital is not significant. In general, the model of the study reveals that Creditworthiness has a significant impact on SMEs' access to finance.

The above findings of the studies have shown the existence of the lending rationales prevailing in the financial institutions covering some crucial issues i.e., credit processing including the completion of the data of borrowers, the credit analysis through 5 Cs of credit, geographical location, relationship lending between borrowers-lenders, genders, etc.

Meanwhile, similar studies on the context of investigating factors affecting the successful borrowers to obtain finance in the financial technology (fintech) industry have also been done by authors (see for instance Diamond (1989), Okurut et al. (2010), Cornée et al. (2012), Ding et al. (2019), Chen et al. (2016), Freedman & Jin (2008), Xu et al. (2015), Zhang et al., (2017), Jagtiani & Lemieux (2017), Han et al. (2018), Ravina (2019)).

Diamond (1989), Okurut et al. (2010), Cornée et al. (2012), Ding et al. (2019) are

among the authors revealing Creditworthiness or Character as essential factors determining the success of borrowers to obtain finance from fintech. The function of the Creditworthiness, Reputation, or Character of the business owners is very useful in enhancing their capacity to get loans in fintech in some ways: reducing conflict of interest between borrowers and lenders in choosing risky investment (Diamond 1989), influencing lenders' behavior which is favourable for borrowers in terms of lenders' incline to provide financing (Okurut et al. 2010), inducing the good perception from lenders (Cornée et al., 2012), and escalating their standing to get the better probability to get loans with a lower cost than the others. All those researches are evidence that through good Creditworthiness, Reputation, or Character shown by owners of the business, their bargaining power of obtaining financings from lenders would be increasing.

Also Herzenstein et al. (2008), Freedman & Jin (2008), Xu et al. (2015), Chen et al. (2016), Zhang et al., (2017), Jagtiani & Lemieux (2017), Han et al. (2018), Ravina (2019) are those who have investigated various factors (i.e. financial strength, gender, social networks, social capital, interest rate, credit grade, successful loan number, gender, borrowed credit score, information disclosure) that have any influence on enhancing borrowers' possibility to obtain financing from lenders in fintech.

Herzenstein et al. (2008) shed light on the importance of the appearance provided by borrowers in terms of the more information supplied in the platform of (borrowers' financial strength, listing, publicizing efforts, and demographic attributes) by investigating the completed the peer to peer (P2P) lending transactions in the Prosper platform, in the US and found the evidence that those factors do have any impacts on the probability of the successful funding for borrowers in the sense that all those displayed information has helped increase the credibility of borrowers in front of lenders. Then, Freedman & Jin (2008) examine whether social networks do alleviate the information problem in the lending decision in the same

platform in the US. They find the evidence that social networks in terms of loan facility by friend endorsements and friend bids did succeed in reducing missed payments and significantly generate higher rates of return than other kinds of loans. Xu et al. (2015) explore the importance of social capital in P2P lending and compared the findings in China and the US. The findings state that the influence of the social capital of borrowers on the possibility of getting loans is different between the two countries. Social capital is proven to have more impacts on the possibility of borrowers in China than in the US. However, social capital affects the interest rate determination in the US, but it does not apply in China.

Besides, Chen et al. (2016) examines the possibility of gender discrimination in obtaining lending in the largest P2P lending platform in China. The findings show that lenders are inclined to finance female borrowers than male borrowers. However, the findings also state that although they have better access than their peers from males in getting loans, they mostly pay interest rates higher than those of males. Zhang et al. (2017) examine the factors explaining the probability of obtaining the loan in the most extensive online Peer to Peer (P2P) lending in China, Paimaidai. The findings suggest that annual interest rate, credit grade, successful loan number, gender, and borrowed credit score do have a positive impact on loan success. In contrast, repayment period, description, and failed loan number do harm loan success in the platform.

Meanwhile, Jagtiani & Lemieux (2017) investigate the quality of information gathered by financial technology platforms and find the evidence that fintech lending platforms own a lot more information than traditional banking networks do which is very important for uncovering default risk. Meanwhile, Han et al. (2018) emphasize put the lights on the importance of borrowers in displaying their information voluntarily to get better access to finance. By employing data from Renrendai, a Chinese leading P2P lending platform, the findings show that the persuasion of borrowers' voluntary information has a significant impact on the len-

ders' decision making.

Among the recent studies on some factors influencing the possibility of borrowers to get loans from lenders in fintech, is the study of Ravina (2019). Ravina (2019) examines the influence of gender, age, and ethnicity on the probability of getting loans. The study findings reveal that beauty, race, age, and personal characteristics do have any impacts on lenders' decisions, besides hard information available in the platforms of Prosper.com. Beautiful borrowers are 11.7% more possible to obtain a loan but default more often. Black borrowers are significantly less probable to acquire a loan and are more likely to default.

The studies from the practice of financial technology institutions above show that the lenders' decision-making is influenced by several factors (the creditworthiness, reputation, or Character, financial strength, social networks, social capital, interest rate, credit grade or credit score, successful loan number, information disclosure, demographic aspects (beauty, race, age, gender and personal characteristics), etc.).

From the studies above, either from the traditional finance system through financial institutions as well as the financial technology institutions in practice, it can be concluded that the determinant of loan successful for borrowers in both systems are comprising hard information and soft information. Where, Hard information is such data or information in the form of credit scoring, credit quality records that have been passed by borrowers, financial ratio analysis of borrowers, and also asset ownership data of borrowers i.e. homeownership, etc. Meanwhile, Soft information includes the information which reflects the quality of the relationship of the borrowers-lenders, the quality of borrowers in terms of their reputation, social activity, images, etc. such as relationship lending, gender, social networks, social capital, borrowers or borrowers' family photos, etc.

In conclusion, the above findings of the studies have shown the existence of the lending rationales which is still prevailing in the financial institutions and fintech covering some cri-

tical issues, i.e., the principle of 5 Cs of credit which can be reflected as hard information and soft information about the borrowers and all those are still matters in explaining the success of borrowers in obtaining credit from financial institutions and financial technology.

Regarding the studies about the perception of the MSMEs on the loans provided to them, we can find the studies i.e., Sharma & Gounder (2012), International Labor Organization (2021). Sharma & Gounder (2012) investigate and dig an information from a group of micro and small enterprises (MSEs) in a Pacific island country and find the evidence that there are some identified factors have been obstacles in obtaining loans i.e. bank interest rates, fees and charges, and collateral requirements. Meanwhile International Labor Organization (2021) has identified that from the perspective of Micro, Small and Medium Enterprises (MSMEs) in North Macedonia, the obstacle factors for them to obtain finance from financial institutions are high interest rates, high collateral requirements, long and complex administrative procedures, and high-risk aversion of banks. From those research found in literature it is concluded that in terms of the perspective of MSMEs, the important factors that should be taken into account in obtaining loans from financial institution but all those are still obstacles for them namely interest rate, fees and charges, collateral requirement, long administrative procedures, and the reluctance of banks or as their risk averse attitude.

Novelties of this study

Based on some information conveyed on the first section of Introduction and the second section of Literature Review, we can state some novelties remarked in this study. First, Since the previous studies on lending rationales of financial institutions mostly discuss the findings using a quantitative research method, this study fill in the gap literature by exploiting a qualitative research method exploring the views of informants as borrowers about what to extent the lending rationales in terms of 5C's of Credit are applied in their lending process though financial institutions and

fintech. The other gap is that we can easily find the research in of the importance of the 5 C's of credit in the perspective of lenders, but we have obstacles to easily find in the literature of the context in the perspective of borrowers. Second, To the best of our knowledge, this is the first study examining the lending rationales of financial institutions and fintech in the context of a community of MSMEs in a city of Bandung Indonesia.

METHOD

This study uses descriptive and qualitative methods to reveal the results that resolve the research questions set out in the introduction. The rationale behind the choice of descriptive and qualitative studies is that the study aims to focus more on the uniqueness of the data presented rather than the generalizations that come out quantitatively (Sekaran & Bougie, 2016).

We employ data of several respondents through snow-ball sampling, exhibiting some respondents from Bandung as the capital city of the West Java Province. After the data was collected, the study uses a description of the observations to portray the circumstances and explain the characteristics of each respondent in general. Then, the subsequent analyses are explaining and interpreting the findings based on the responses provided by respondents.

The respondents of the study are the community of the small-medium enterprises (SMEs) who received financing from traditional Financial Institutions, i.e. commercial banks, rural banks, multi-finance institutions as well as financial technology institutions in Bandung City. Bandung City was chosen as the study object premise since Bandung is also known as one creative industry city where the fashion and culinary industry has been growing during the decades. Beside, Bandung is also the capital of the most populous province in Indonesia.

Since the method chosen is a qualitative method, and the objective of the study is to reveal the specific and unique characteristics of the data; thus, we did not apply minimum respondents to be passed. However, by using snow-ball sampling through the community of the SMEs in Bandung, we have 47 respondents put in place as the study objects.

The mechanism of collecting data is through applying open-end questionnaires with six data profile questions and 23 Open-End Questions. Based on their responses or answers, then the findings are revealed in the findings' section and resumed in the Conclusion and Recommendation.

Since the study uses open-end questions, thus the variables and indicators used in this study are as follows:

Table 1. Variables and Indicators of the Study

No	Variable	Indicator
1	Loan facility received	Where they obtained the loan's facility either from microfinance institutions or financial technology institutions
2	the speed of the loan processes	How long it takes form the initial application to the approval from financial institutions or banks.
3	The stages of loan process	What stages should be experienced of the loan process
4	Data/information should be prepared	Data/information that should be prepared for applying loans
5	Credit Analysis tools/instrument	Do Financial Institutions and Fintech fully apply the 5 C's of credit analysis (Character, Capacity, Capital, Collateral, Condition) in their loan process
6	Business Feasibility Study	Whether they prepared a business feasibility analysis while applying loans to financial institution (Fintech),

7	Collateral requirement.	The involvement of collateral as one of the requested documents that should be prepared
8	Obstacles faced	What obstacles faced in the process of applying for loans to financial institution/fintech.
9	Satisfaction of borrowers to fintech and financial institutions.	Whether they are satisfied with the employees of microfinance or fintech institutions in their services,
10	Interest rate on loans	Whether the interest on credit is cheap
11	Technology application used	Whether they used Technology Application in the process of applying loans to Financial Institution or Fintech
12	Technology in financing: make easier or difficult.	Whether the use of technology in applying for loans make it easier or more difficult,
13	Determinants of success in obtaining loans	What factors, based on their experience or opinion, which determine their success in obtaining loans from Financial Institution/Fintech
14	The Importance of technology involvement in the loan process.	How important the provision of technology provided by Financial Institution/Fintech in facilitating the application of loans facilities for their business
15	Features provision	What features Financial Institution/Fintech need to provide in adopting fintech to support loans facilities
16	Suggestions	What their suggestions for Financial Institution or Fintech, in order the loan process to be better

The study uses Word-Clouds as a basis for the analysis, in regards to figure out what are the important words as visual representations of words that give greater prominence to words that appear in the survey on this study.

RESULTS AND DISCUSSIONS

This section presents the findings elaborated based on the answers that originated from the informants.

Here is a brief description of the respondents: 47 individuals are representing the owners of the micro and small businesses in Bandung City especially in one of the communities of the micro and small-medium enterprises (MSMEs) in the city. They are operating in various businesses spanning from culinary, trading, food, fashion, photocopy services, IT services, and digital branding services. The age of owners is varied from 21-57 years old, with 42 years of age on average, and the gender is almost balance between them with 24 are female and 23 are male entrepreneurs. The level of educa-

tion of them are mostly high school and under with 35 people (it comprises, 28 Senior High School, 6 Junior High School, and 1 elementary School), and the rest are graduate of the universities (it consists of 3 Diploma, 8 Bachelor and 1 Master degrees).

In responses to the major questions concerning the credit facility beneficiaries and their circumstances, the findings constitute some findings as follows. The presentations of the findings are based on the main variables and indicators stipulated in the section of the research method section.

When they are asked about the loan's facility received either from microfinance institutions or financial technology institutions, they are all admitting their borrowings' status with yes answers. They have borrowed the funds from financial institutions, including banks and financial technology institutions. The limit of the credit is varied from IDR 3,000,000 to IDR 200,000,000, with an average of around IDR 43,000,000. Based on the regulations prevailing in Indonesia, those aforementioned amounts of

credits are classified as MSMEs' loans. In terms of loan purposes, they mostly received loans for working capital, and the rest were for investment purposes.

In systematically, there are 12 respondents stated received financing facilities from banks, 2 respondents stated receiving the loans from financial institutions and the rest only answer yes without stating bank or financial institutions or fintech. Since the respondents are the borrowers from the three classifications, thus it is concluded that the rest are the borrowers from fintech.

In terms of the speed of the loan processes, the results show that the time starting from the application to its approval is varied from two-days to three-months in practice. The respondents mostly state that on average, they experience on around one week to one month.

Meanwhile, where they are asked about the stages of the loan process they experienced, there are four kinds of classified answers. First, they answered "Proposal, Disbursement"; Second, "Completed data, Disbursement"; Third, they answered "Completed data, Survey, Disbursement"; and Fourth, they answered "Proposal, Completed Data, On-Site Survey, and Disbursement". Based on that, it can be concluded that the primary process of the loan application is proposal of application and disbursement.

Furthermore, when they are asked about data/information that should be prepared for applying loans, they answered that the short-form data are Identity Card, Family Card, and Marriage Letter, and the long-form data are Description of business, Identity Card, Family Card, Marriage Certificate, and the last 3 months' Income.

When they are asked whether Financial Institutions and Fintech did fully apply the 5 C's of credit analysis (Character, Capacity, Capital, Collateral, Condition) in their loan process, the answers are 23 respondents said "yes", 23 others said "not yet fully implemented", and 1 respondent says "no". Concerning these answers, it is revealed based on the perception of nearly half of them, that the Five C's of credit has been fully

implemented in the credit analysis by Financial Institution or by Lenders in the Fintech scheme. However, nearly half of them stated that the lenders have not entirely implemented the Five C's of credit, and the only one respondent stated that it is not implemented by the lenders. Interpreting these findings, it is concluded that some have implemented the principles entirely, but some others stated that the principles have not yet implemented entirely. The findings are very sensible that not all financial institutions or fintech require all 5 principles, for instance, collateral is not applied in the scheme of peer-to-peer lending and in one of the lending schemes in banking i.e., unsecured loans. Thus, the difference in this kind of practice has also induced different responses from respondents or informants. However, some other principles such as character, capacity, capital, and condition seem to have reflected by some requirements requested by Lenders in the platform. Whereas, when they are asked which one is the most important aspect out of 5 Cs in the loan process, 9 respondents are stating that Character is the most important one, 20 respondents state that Capacity is the most important one, 13 confirm Capital is the most important one. 3 respondents agreed on the importance of collateral, and only 1 respondent stated the importance of condition. It is concluded based on their answers, that Capacity, Capital and Character, are the top three important aspects of the 5 C's of credit. The first two aspects reflect their performance in their business, while the last exhibits the importance of character of the borrowers in doing businesses.

The findings of revealing the importance of the 5C's of credit in the loan evaluation process performed by financial institutions and fintech in this study, have strengthened and supported previous quantitative empirical findings carried out by authors in terms of: the importance of credit scoring and 5C's principle as a whole [Capon (1982), Turvey, et al. (2011), Prah (2017), and Wasiuzzaman et al. (2019)]; soft information i.e. relationship lending, character (Peterson & Rajan (1994), Berger & Udell (1995), Grunert & Norden (2012), Dia-

mond (1989), Okurut et al. (2010), Cornée et al. (2012), Ding et al. (2019)); capacity (Herzenstein et al. (2008), Freedman & Jin (2008), Xu et al. (2015), Chen et al. (2016), Zhang et al., (2017), Jagtiani & Lemieux (2017), Han et al. (2018), Ravina (2019)); capital (Roszbach (2004), collateral (Degryse & Ongena (2005), Bellucci et al. (2019), Turvey, et al. (2011), Prah (2017), & Wasiuzzaman et al. (2019)], and condition (Turvey, et al. (2011), Prah (2017), and Wasiuzzaman et al. (2019)).

Regarding the preparation of the project proposal, they are asked a question whether they prepared a business feasibility analysis while applying loans to financial institution (Fintech), the findings indicate that around 70.2% of respondents (around 33 informants) had prepared a business proposal to obtain a financing either from Financial Institution or fintech. These results have also empowered the importance of the project proposal as an important material for prospective borrowers to submit loan applications, as well as a significant consideration for lenders in evaluating their feasibility. Their opinions have confirmed the findings of (Herzenstein et al. (2008), Zhang et al. (2017), Jagtiani & Lemieux (2017), Han et al. (2018)).

Considering the involvement of collateral as one of the requested documents that should be prepared, the findings indicate that 65.95% of respondents (31 informants) answered “yes”, and the rest stated no. Indeed, in the financing system of the lending market in Indonesia, banks generally require assets as collateral for the loan facility provided to their borrowers. However, there is also a scheme of insecure-loans facility or loans without requesting collateral for some instance. The other possibility is that, the fintech based loans mostly do not require collateral for borrowers. However, they only requested borrowers or applicants to show or disclose some documents or photos to display their business projects in the platform or fintech institution’s websites.

When they are asked which is more important between business feasibility analysis and collateral in applying for loans, 57.45%

(around 27 respondents) stated “Collateral or guarantee”, and the rest stated “Feasibility study”. These findings indicate that they are more ready to submit collateral than preparing a feasibility study to financial institutions. These could be caused by the perception of putting in place collateral is more superficial than making a feasibility study; thus, they do not have to bother preparing a proposal. The other reason is that because the provision of collateral has become a classic requirement for borrowers to apply loans to financial institutions so that they are familiar with these requirements and think it is not a problem.

The description of their opinion regarding the importance of collateral and feasibility study with the magnitude of the collateral is higher, can be reflected in this word-clouds in Figure 1.



Figure 1. Collateral vs Feasibility Study according to Informants

In relation to the previous question about collateral, when they are asked why a business feasibility or collateral analysis is important to prepare, those who chose feasibility study as more important said “because it can be seen that the business is real or actual so that it is known whether or not it is able to pay the loan; because to know whether you are able to pay off debt or not; because with a business feasibility analysis, the bank will have more confidence; for future estimates so that loan payments will be smoother; to be more visible about the progress or growth of their business; in order to know the business capacity and ability to pay; because to

varied from 0%, 1%, 3%, 7%, 9% to 11%.

Meanwhile, in terms of technology application, and they are asked whether they used Technology Application in the process of applying loans to Financial Institution or Fintech, there are 5 respondents said “yes”, and 42 respondents said “no”. Then when they are asked whether the use of technology in applying for loans is making it easier or more difficult, mostly respondents stated “make it easier”. From these findings, we can state that although for some extend, the respondents have not used the technology application in the process. However, they seem to be very confident that by implementing the use of financial technology, the process of loans would be made more accessible. This statement has been confirmed by word-clouds presented in Figure 3 as follows:



Figure 3. Responses to technology use in applying for credit according to Informants

Then, when they are asked what factors, based on their experience or opinion, which determine their success in obtaining loans from Financial Institution/Fintech, they answered as follows: “providing information and business feasibility of the last 3 months’ income; survey of business prospects; requirements are met; trust from the fintech to customers; experience and ability to pay; creditworthiness analysis and guarantees; creditworthiness analysis and pay slips; honest to provide information and discipline to make payments; accuracy in paying, guarantees, and business prospects.; business prospects, information provided, and guarantees; the information provided is in accordance with

reality; information provided as is; business prospects supported by guarantees; there is a guarantee and the conditions are met; honesty of information and completeness of data as well as surveys conducted as reported; trust, guarantee, place of business (business site); trust and guarantee and timely installments in advance; trust; business development, trust, and previous installments on a timely basis: trust and assurance; guarantee and trust; character and certainty; guarantee or collateral; trust and guarantee and timely installments; guarantee, trust, complete terms; data validation; business proposal”.

From the answers above, it is concluded that they assumed by their perception that all those are the factors to determine their success in obtaining loans from Financial Institutions and fintech. Observing the magnitude of the answers, it seems that guarantee, trust, business prospects, requirements’ completion have been the most mentioned in their responses (Please see Figure 4).



Figure 4. Responses to the question of what factors determining the success of obtaining credit from financial institutions/fintech.

In addition, when they are asked how important the provision of technology provided by Financial Institution/Fintech in facilitating the application of loans facilities for their business, they answered: 6 respondents stated “very important”, 24 respondents stated “important”, 13 respondents stated “not too important”, 2 respondents stated “not important”, 2 respondents stated “no idea”. The answers above from respondents indicate the importance of the use of the technology provider for Financial Institu-

tions and fintech in regards to support the process of financing or credit transaction services at financing institutions and fintech.

In terms of the appearance, when they are asked what features Financial Institution/Fin-tech need to provide in adopting fintech to support loans facilities (Example: credit application process menu, credit payment menu, credit monitoring menu, credit restructuring menu), they answered as follows: credit monitoring menu or feature; payment menu and supervision; menu for submission, payment, and credit supervision; menu of data verification process, disbursement process, financial control management in and out; 2 menu for payment and monitoring of installments; installment notification menu; payment reminder menu; billing reminder menu and payment control; installment monitoring menu; credit payment menu; installment reminder menu and credit supervision; features for requirements; installment payment feature; credit escort feature; installment feature; credit payment feature; credit application process feature; features in the loan procedure; do not be complicated in determining the interest and principal directly; menu submission of requirements; ease of service in tracking customer data and processing loans; inquiries are provided; loan payment features; features of the loan application process; installment feature; a waiting room is available; file processing service features; an example menu of calculating interest and loan payable. In terms of the magnitude of the suggestions, there are 8 respondents suggested "Credit Application Process"; 6 Respondents suggested "Credit Monitoring Menu", 5 Respondents suggested the "Installment feature", 3 respondents suggested "Credit payment feature"; 3 respondents suggested "Payment and Installment menu". Then, other features are suggested by less than 3 respondents on each. The responses from informants can be also be viewed in Figure 5 as follows:

The last, when they are asked what their suggestions for Financial Institution or Fin-tech, in order the loan process to be better, they answered as follows: "more-sophisticated app-



Figure 5. Responses to the question of what feature should be provided by financial institutions/fintech in terms of lending facility provisions.

lications; the submission process is faster; the service is getting better in terms of providing a ceiling; there are applications with maximum features and online based that are synchronized with the government, Central Bank (BI) and Financial Services Authority (OJK) databases and are easily accessible to the public, especially MSMEs or Start-ups; more sophisticated technology and lower interest; the process should not be too long and the interest given should not be too high; the interest rate should not be too high; already well; the amount of financing for MSMEs players is added and the interest is reduced; faster processing and lower interest rate; interest could be lower; interest rates could be lower and terms made easier; hopefully the service can be improved; the credit fulfilment process to be faster; the trust of financial institutions is expanded and deepened; time and process are accelerated; terms made easy; financing requirements should not be complicated; better service and prioritized for customers; good service and easy procedure; requirements made easy and interest low; services are improved and requirements made easier; interest is cheaper and eligibility is increased; do not be convoluted; interest is reduced and the borrowing process is accelerated; procedures made easy; terms made easier; the level of trust from Financial Institution/Fin-tech to be increased; requirements are made easy and not too much and complicated; time in the borrowing process is streamlined and

borrowers, but there are two types of application, that is, fully and not fully implemented in practice. These findings indicate that financial institutions still place the 5 Cs credit principle as an important tool for evaluating the quality of prospective borrowers so that credit quality is maintained as expected.

Indeed, in reality, the application of 5Cs of credit as Lending Rationales for financial institutions can be reflected or applied dynamically either through different lending technology items, namely soft information and hard information, as well as credit scoring applied by banks and non-bank financial institutions or also such as the implementation of display requirements that must be provided by prospective borrowers on their financial technology platforms, for example through peer to peer lending or crowdfunding schemes. However, it can be concluded that all the information provided by borrowers, either through traditional financial institutions as well as financial technology institutions, is still very much needed and is still very important in influencing lender decisions.

They have implications for prospective borrowers to continue to prepare for fulfilling credit requirements correctly and as requested by financial institutions, both traditional financial institutions and financial technology. Also, the results of this study provide input to financial institutions and lenders in fintech to implement the 5Cs appropriately to ensure the quality of credit disbursement is excellent and safe. It is also recommended for future research to expand the data through other MSMEs either through the community in one industry as well as in different industries in some municipalities or cities around the world. Secondly, it is also beneficial if future studies can also modify some questions by highlighting the uniqueness of the regions in practicing finance.

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