

A SURVEY ON THE PERCEPTIONS  
ABOUT CONSUMER CREDITS  
IN TURKEY

A THESIS  
SUBMITTED TO THE DEPARTMENT OF MANAGEMENT  
AND  
GRADUATE SCHOOL OF BUSINESS ADMINISTRATION  
OF BILKENT UNIVERSITY  
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS  
FOR THE DEGREE OF  
MASTER OF BUSINESS ADMINISTRATION.

BY

FUNDA BAYDAR  
JANUARY 1992

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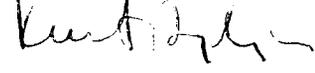
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*Funda Baydar*  
tarafından beğenilmiştir.

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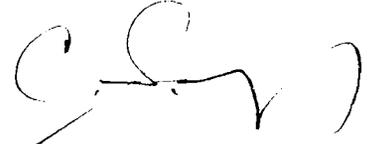
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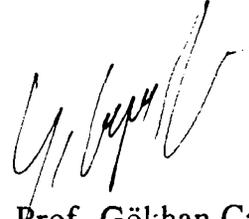
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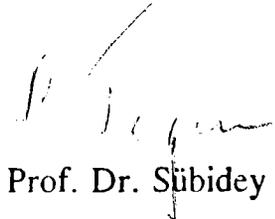
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Assoc. Prof. Gökhan Çapoğlu

Approved for the Graduate School of Business Administration.



Prof. Dr. Sübidey Togan

*TO THE MEMORY OF*

*KAAN KAHRAMAN*

## ABSTRACT

### A SURVEY ON THE PERCEPTIONS ABOUT CONSUMER CREDITS IN TURKEY

BY

FUNDA BAYDAR

SUPERVISOR: ASSOC. PROF. GÖKHAN ÇAPOĞLU

JANUARY 1992

This study basically deals with consumer credits as a consumer finance tool which has gained widespread use in recent years, in Turkey. One of the reasons behind this change is competition, which got tougher day by day, urging the banks to provide more and more diversified services rather than classical banking services. There have been many studies undertaken on consumer loans in Western countries where consumer credits, credit cards, mortgage loans and all other individual banking services have been used for many years. With a background of four years, consumer credits are not studied thoroughly in Turkey. This study covers some of the previous studies undertaken in other countries in reference to Turkey and is mainly concerned with the emergence and growth stages of consumer credits.

This study also sheds light on the perceptions of the persons on consumer credits who are mostly salaried employees in Ankara. Data used to give insights about the perceptions on consumer credits is gathered from a questionnaire specifically designed for this study. The number of the respondents was 228, of whom 47 actually used consumer credits.

It is quite obvious that consumer credits will be used more in the coming years with some financial and legislative changes in implementation.

Keywords: Consumer credits, consumer financing, individual banking services, consumer loans

## ÖZET

### TÜRKİYE'DE TÜKETİCİ KREDİLERİ ÜZERİNE DÜŞÜNCELER - BİR UYGULAMA -

FUNDA BAYDAR

YÜKSEK LİSANS TEZİ, İŞLETME ENSTİTÜSÜ

TEZ YÖNETİCİSİ: DOÇ. DR. GÖKHAN ÇAPOĞLU

Bu çalışma Türkiye'de son yıllarda bir tüketici finansman aracı olarak yaygınlık kazanan tüketici kredilerini incelemektedir. Böyle bir yeniliğin en önemli sebeplerinden biri, klasik bankacılık hizmetlerinin yerine günden güne artan rekabet koşulları karşısında bankaların birçok değişiklik gösteren bankacılık hizmetleri aramalarıdır. Uzun yıllardan beri Batılı ülkelerde kullanılmakta olan tüketici kredileri, kredi kartları, ipotekler ve diğer tüm bireysel bankacılık hizmetleri üzerine çalışmalar yapılmıştır. Türkiye'de ise geçmişi dört seneye dayanan tüketici kredileri üzerine tam anlamıyla bir çalışma yapılmamıştır. Bu çalışma, diğer ülkelerde bu konuda yapılan çalışmalardan Türkiye'ye referans vermekte ve Türkiye'de tüketici kredilerinin başlangıç ve gelişme aşamalarını incelemektedir.

Bu çalışma, çoğunlukla Ankaralı memurların tüketici kredileri konusundaki düşüncelerine ışık tutacaktır. Tüketici kredileri konusundaki düşünceleri göstermek üzere, özellikle bu çalışma için hazırlanan bir ankette yararlanılmıştır. Bu ankete yanıt verenlerin sayısı 228 ve bunlar içinde tüketici kredisi kullanmış olanlar 47 kişidir.

Gelecek yıllarda tüketici kredilerinin, yapılacak bazı finansal ve hukuki değişikliklerle daha da yaygınlaşacağına kesin gözüyle bakılabilir.

Anahtar kelimeler: Tüketici kredileri, tüketici finansmanı, bireysel bankacılık hizmetleri, tüketici borçlanması

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## 1- INTRODUCTION

The Turkish banking system has experienced new individual banking services initiated mainly because of the tough competition and improvements in technology. Among those, consumer credits reached to a significant level since 1988. Consumer loans, as a finance tool, is commonly used in Western countries since World War II although some changes took place in implementation.

The main purpose of this study is to gain insight about the perceptions of consumer credits, both by users and non-users. The perceptions about consumer credits are mainly identified according to income and age classifications whereas special attention is drawn on the perceptions of the users, too.

Another aim of this study is to work on some concepts about consumer credits and deal with the emergence and growth of these loans in Turkey during the last four years.

Finally, the results obtained from the study will be compared with the actual data of Banks Association of Turkey, where possible, to see the trends in usage of consumer credits.

## 2- BASIC CONCEPTS ABOUT CONSUMER CREDITS

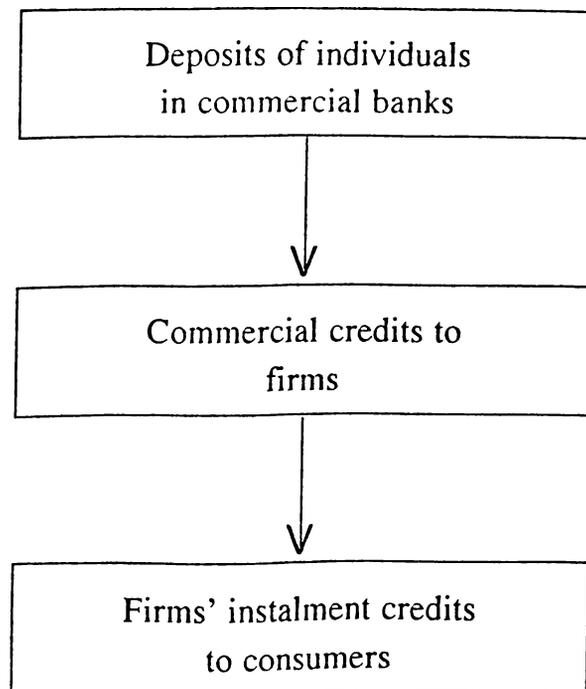
### 2.1 - DEFINITION

Consumer credits are the deferred payments of institutions which include all short- and intermediate-term credits in order to finance the purchase of goods and services for personal consumption or to refinance debts incurred from such previous purposes. The consumer, in turn, promises to pay a cash price or price payable under the credit agreement at some future due date in exchange for either cash funds or the goods and services obtained in advance of payment (Chapman, 1967).

The basic difference between the consumer credits and the commercial credits is that, the latter aims mainly at increasing the production capacity and maximizing the profits whereas the former serves for providing goods and services whenever needed for consumption.

The financial institutions that extend consumer credits are commercial banks, sales finance companies, consumer finance companies, credit unions, mutual savings banks, loan associations, industrial loan companies in Western countries (Chapman, 1967). In Turkey, consumer financing for goods and services were implemented through instalment sales by the firms, before the introduction of consumer credits. In that case, the monetary circle begins by the deposits of the individuals in commercial banks turning into commercial credits to firms and lastly to the instalment sales to the consumers, as shown in Figure 1.

Figure 1 - Monetary Circle in the Absence of Consumer Credits in Consumer Financing



However, this type of circle, resulted in a burden of more than five trillion TL. of debt as of early 1989 (Seslioğlu, 1989) to the firms. The introduction of consumer credits seems only as a change in the structure of consumer financing, proven by the five trillion TL. volume of consumer credits as of June 30, 1991 (Banks Association of Turkey) extended through the commercial banks.

## 2.2 - HISTORICAL BACKGROUND

In the U.S., the emergence of consumer financing as a deal takes place in early 20th century. The individuals who were in need of cash in order to close the gap between their income and expenditures were mainly the urban wage earners and the other low-income earners. Cash lending agencies, pawnbrokers and note-

shavers were active in this area. Pawnbrokers made cash loans to consumers and received pledges in the form of tangible personal property including clothing, watches, and jewelry. The note-shavers granted credits to small businessmen on equipment and inventories; to farmers on livestock, buildings and crops; to craftsmen and salaried employees on houses and other security. However, both were charging high interest rates and were using harsh collection tactics. The solution was the establishment of publicly regulated and privately owned financial companies that extended credits to wage earners at more reasonable rates. The passage of legislation allowed the spread of consumer finance companies throughout the U.S, in Europe, the need for consumer credits was felt after World War II, for especially residential purposes. (Chapman, 1967).

### 2.3 - BASIC LOAN CLASSIFICATION

Classification and application of consumer credits may vary from country to country or from one financial institution to another, but they are generally divided into two major categories :

- i) instalment credits,
- ii) non-instalment credits.

Instalment credits, in turn, are subdivided into two groups: cash credits and credits extended for the purchase of goods and services. Commercial banks extend a loan to their customers in the form of cash, in case of the cash credits. In the second type, which is also called "indirect financing", banks purchase the debt notes showing the purchase of their customers from the retailers. Instalment credits are characterized by periodic repayment of principal and interest in fixed monthly instalments over the maturity of the loan, whereby the payments and the

maturities are determined by the agreement between the two parties - the customer as the borrower and the bank as the lender (Seslioğlu, 1989).

Instalment loans can be made on a secured or unsecured basis. A secured loan requires the claim of an asset by the customer on which a secured interest can be obtained in case of default of payment whereas an unsecured loan does not require such a claim (Yılmaz, 1991).

Another type of classification is according to their terms:

- i) short-term credits: credits given for periods of 3 months or less,
  
- ii) medium-term credits: credits given for periods of 3 to 12 months which include:
  - 1) hire purchases where the renter is given the option to purchase the previously rented good,
  - 2) credit sale where the ownership of the good passes immediately to the buyer after a number of instalment payments,
  - 3) cash loans to consumers,
  - 4) conditional sale (agreement) where the ownership of the good stays on the salesman until the principal and the interest payments over the maturity are paid back,
  
- iii) long-term credits : credits given for periods of 5 to 20 years, especially for mortgages (Akkurt, 1989).

## 2.4 - ADVANTAGES AND DISADVANTAGES

Consumer credits provide direct positive effects for the whole economic system - through production, marketing, finance and consumption. The greatest advantage of the consumer credits is undoubtedly the possibility of purchase of goods and services which consumers cannot acquire by their current incomes; thus, increase the welfare of these groups. So, consumer credits provide means to bring the preferences of the consumers forward in time. In inflationary environments as in Turkey, the expectancy of price increases and thus the unavailability of some goods and services increase the importance of consumer credits.

From the standpoint of marketers and sellers, consumer credits provide cash on purchase which can immediately provide an inventory backup and from the point of view of producers, the cash purchases help mass production. All these effects, in turn, will have impacts on the general economic conditions and welfare.

Finally from the point of view of the commercial banks, consumer credits provide a possibility to place huge amounts of costly reserves and by doing so banks diversify risk - which is the gospel in banking, and they make use of efficient and profitable means in extending credits. Another advantage for banks is the potential created for insensitive demand to the economic or industrial fluctuations. Moreover, consumer credits are the competitors of purchases on instalments, in Turkey. In this context, the firms who demand credits from banks, in order to compensate their instalment sales, will decrease their credit demand, leading to a higher credit potential for banks (Seslioğlu, 1989). Besides, the commercial firms which can easily gather cash through consumer credits will use other banking services.

Nowadays, the commercial banks allow their customers to determine the maturity of their loans which can also be seen as an advantage. In cash credits, the consumer is free to choose the brand and the good or service itself (like that of Yapı Kredi Bankası in extending cash credits for housing and İmar Bankası for automobile purchases), but in some of these credits, the customer is restricted with the given option (the attractive interest rates of Emlak Bankası for housing restricts consumers to be directed to İstanbul-Halkalı, Ankara-Eryaman, İzmir-Gaziemir- 3.5 % monthly interest as of Dec. 17, 1991, Eskişehir-Yunusken- 3.0 % as of Dec. 28, 1991).

However, some disadvantages of consumer credits also exist. First of all, consumer credits are said to lead consumers to use their cash credits in unnecessary and numerous fields just because of easy availability. The reasons behind the increase in the amount of consumer credits are, in general economic conditions, competition among the lending institutions and changing demographics of households which, in turn, bring about a high consumer instalment debt to families compared to their annual incomes. This point is more accurate for Western countries than Turkey where the lending institutions are extending credits easily. The bankruptcies of individuals are quite common and banks are trying out new ways of insuring themselves against such risks. The commercial banks in Turkey also experience such risks so they are very cautious in extending credits. However, the non-returned consumer credits reached to 1,380,725,000,000.-TL. in the last quarter of 1990 and 832,020,000,000.-TL. in the first quarter of 1991 showing an increase from 0.49 % to 1.43 % in the ratios of percentage of non-returned credits in the total extended credits, respectively (Banks Association of Turkey).

One other claim against consumer credits is an inflationist pressure created due to increased demand for durable goods in the first-hand and by the chain effects

on production, income and then demand again. However, this claim is proven neither empirically in Western countries where consumer credits have been used for years nor in econometric models (Fiedler, 1971).

Another disadvantage of consumer credits is their effects on consumption and expenditure tendencies of the consumers. At first hand, they tend to destroy potential personal savings and thus the future liquidity of people. Unconscious loans also result in increases in personal loans - ratio of disposable income to total personal liabilities (Ayaroglu, 1990).

### 3 - CONSUMER CREDITS IN TURKEY

#### 3.1 - THE CAUSES OF THE EMERGENCE OF CONSUMER CREDITS

Consumer credits, which have been widely used in Western countries, began only in 1988 in Turkey. One of the reasons why consumer credits were not supplied until 1988 was basically the unavailability of the needed infrastructure. After liberalization of the Turkish economy by January 1980 decisions, the Turkish economy experienced high growth rates in every sector and during this period many foreign banks opened branches or took some Turkish firms into partnerships. Such improvements brought about a competitive structure into the Turkish banking sector which led all commercial banks to adapt to new technologies, and thus automation. The incredible changes in banking brought about new tools to serve customers among which are ATMs (automated teller machines), credit cards, consumer credits, portfolio management, etc.

Another reason is the limitation of the Banking Laws in extending credits to people other than merchants. Yet, other reasons that discouraged the supply of consumer credits from the point of view of banks are the costs incurred due to the pursuit of credits, the lack of insurance and legislative arrangements corresponding to the credit risk (Oğuztürk, 1989).

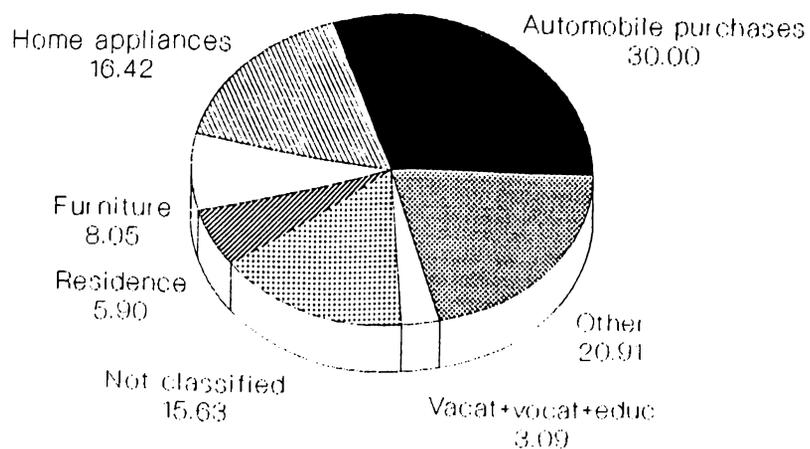
There has been a high increase in the usage of consumer credits although there has not been much of a change in the infrastructure. The big banks with high number of branches have switched to extending consumer credits with high percentages in their portfolios. Table 1 and Figure 2 show the growth and the distribution of the consumer credits (See also Appendix 1):

Table 1: Consumer Credits According to the Classification of Goods and Services as of March 31, 1991  
(consolidated)  
(involves 18 banks' data)

	Volume (mln TL)	Number of persons
<b>TOTAL</b>	<b>4,863,692</b>	<b>1,271,586</b>
Automobile purchases	1,458,975	83,393
Home appliances	798,529	267,143
Residence	286,890	89,397
Furniture purchases	391,509	243,138
Vocational expenses	83,212	30,481
Educational expenses	24,991	15,468
Vacation expenses	42,308	21,493
Other	1,017,240	213,108
Volume not-classified by the banks	760,038	307,965

Source: Banks Association of Turkey

Figure 2 - Consumer Credits According to Classification of Goods & Services (%)



Source: Banks Association of Turkey

The data presented in Table 1 do not show the volume of the whole market due to either the unavailability of data or lack of information from the banks. Despite all these, the volume of consumer credits that have been used beginning from 1989 to March 1991 has reached to five trillion TL. used by one and a half million people. As can be seen from Table 1 and Figure 2, consumer credits are mostly used for the purchase of automobiles with 1,458,975,000,000 TL. corresponding to 30.0 % of the total loans extended.

This rapid change in consumer financing was due to several reasons :

- i) the high interest policies directed the credible companies to their own equity-capital rather than credits extended by banks,
- ii) the credit demands were mainly coming from second- and third-quality firms which led to a higher credit risk for banks,
- iii) the interest rates set in September 1988 created huge amounts of deposits in banks,
- iv) from the point of view of banks, to follow the entrants in order not to lose their own market share and not to fall behind in the banking services brought by the modern technologies.

Items i, ii, iii resulted in huge volumes of costly reserves in banks which the banks had to use so as to diversify risk, increase credit efficiency, profitability and the number of customers served (Oğuztürk, 1989).

### 3.2 - IMPLEMENTATION OF CONSUMER CREDITS

The need felt for diversifying the risk brought by costly amounts of reserves in banks and the need for a tool for consumer financing resulted in many commercial banks to intervene the consumer credit market. First was Yapı Kredi Bankası in July 1988 (Bekirođlu, 1989) with the contract of Renault-Mais - Yapı Kredi. Yapı Kredi Bankası was extending credits for only the Renaults; the followers, namely Töbank (February 1989), Garanti Bankası (March 1989), and Pamukbank (April 1989) began extending consumer credits for the purchase of cars of all makes (Özşahin, 1989).

Consumer credits were mainly directed towards the purchase of automobiles, at first stage on contracts like Renault-Mais - Yapı Kredi, Sabah Pazarlama - Töbank, etc. The reasons for directing to marketing of automobiles are:

- i) the period the banks began extending credits coincided with the period that domestic automotive industry was suffering from a declining demand,
- ii) the most expensive commodity by the instalment sales is the automobile because of a 15 % VAT plus other taxes emanating from the purchase of a car (12 %), polluting the environment, etc.,
- iii) banks looked for the most secured contracts with consumers and since automobiles provided possibilities of pledging, credits for automobiles seemed riskless at the first stage (Sesliođlu, 1989).

Table 2: Share of Goods and Services Purchased by Consumer Credits (%)

Periods	Automobile purchases	Purchases of home appliances	Residence vocational expenses, educational expenses, vacation expenses	Furniture expenses	Not classified by banks
end 89	58.58	19.19	4.70	11.05	6.48
Jan. 1-March 31 '90	32.67	17.43	14.69	10.92	24.29
April 1-June 30 '90	34.36	23.46	7.20	15.05	19.93
July 1-Sept.30 '90	30.91	17.52	12.86	12.85	25.86
Oct. 1-Dec. 31 '90	25.40	24.28	9.69	12.99	27.64
Jan. 1-March 31 '91	30.00	16.42	17.04	8.05	36.54

Source : Banks Association of Turkey

Table 2 shows the actual situation according to quarterly periods. As can be observed, the highest usage of consumer credits is for automobiles for all periods. The share of credits used for the purchase of automobiles seems to decrease in the first quarter of 1991, but it is probably due to the unavailability of such a classification from the banks; hence the item "not classified" has increased to 36.54 % which probably has an automobile share in.

Commercial banks do not give consumer credits to the members of the same family. Some banks try to minimize the burden of maturity payments on the retired so they require the repayment on three months' instalments. Some banks limit credit volume to some multiple of the applicant's monthly income. If the bank is involved in case of cash payment to the seller in exchange for the goods and services in advance, the bank gets a commission of at least 3 % of the total value of the purchase. Banks require two guarantors for the applicant. In case of automobile purchases banks do the car insurance.

It is noteworthy to emphasize the efforts of banks to minimize the risk through cooperation with some companies of automobiles, home appliances, etc. and

extend consumer credits only to those directed goods and services. In case of automobiles, the consumer is generally restricted to purchase a new car. This fact limits the advantage of the consumer to use the loan for the desired goods or services. In this respect cash credits, unlimited automobile credits (of İmar Bankası) and newly introduced exchange-indexed credits (of Yapı Kredi Bankası- \$10-80 thousand or DM 20-120 thousand), which affects the choice of the consumer, are more satisfying but bring greater risk to the bank.

### 3.3 - THE CHARACTERISTICS OF DEMAND AND SUPPLY FOR CONSUMER CREDITS

#### 3.3.1 - THE CHARACTERISTICS OF DEMAND

On the demand side, tax incentives to borrow, the growth of population, rising incomes, increasing supply for consumer credits, the age structure of the population, the earnings profiles of consumers and their preferences stand as factors that determine the willingness of consumers to borrow.

##### 3.3.1.1 - TAX INCENTIVES

Taxes generally affect the amount that consumers want to borrow where deductions or "tax credits for interest costs incurred in the purchase of consumer goods or owneroccupied dwellings" are possible (Jappelli and Pagano, 1989).

In Sweden and the U.S., the tax code allows deductions for the interest cost incurred to the purchase of consumer goods or "owneroccupied dwellings".

An index of total tax elasticity was derived to give some insights about the behavior of consumer credit demand where deductions of interest incurred to consumer credits are allowed. Total tax elasticity is the proportional change in tax liabilities divided by the proportional change in income. The link between the consumer credits and the total tax elasticity is through the allowance of deductions incurred to consumer loans. In this context, these incentives are taken as the cause of the proportional change in tax liabilities and hence the demand for consumer credits. Table 3 shows the tax elasticities of countries (Jappelli and Pagano, 1989). In taking the data of Table 3 into consideration, tax deductibility of interest on consumer loans may partly explain why consumer credits are widespread in Sweden and the U.S. (in Sweden, the hypothesis that the higher the tax elasticity the greater the incentive to borrow is reinforced by 2.33 of total tax elasticity and the progressivity of the tax system) while tax elasticity of U.S. where tax-deductibility of interest is allowed by the Tax Reform of 1986, is lower than other countries where there are no such incentives. This doubt is stated by Patrick W. Harrison, executive vice-president of Sovran Bank that: ". . . It appears that if consumers want a product, they will buy it, . . . , regardless of whether the interest is tax-deductible." (Morrow, Burres, Federman, Harrison, Wilson, 1989 ).

Table 3: Fiscal Incentives to Consumer Debt

	Personal Consumer Loans	Total Tax Elasticity
Sweden	Interest fully deductible	2.33
U.S.A.	Interest fully deductible	1.55
U.K.	No incentives	1.72
Japan	No incentives	1.88
Italy	No incentives	1.63
Greece	No incentives	1.86
(Turkey)	(No incentives)	(0.79)

Source: "Consumption and Capital Market Imperfection", Tullio Jappelli and Marco Pagano, American Economic Review, vol. 79, no.5, p.1097

In calculation of the total tax elasticity of Turkey, proportional income changes are calculated from the GNP figures for the period 1987-1988 and tax liabilities are gathered from individual tax revenue items of Turkish consolidated budget on the strong assumption that no tax evasion had taken place. As can be seen from Table 3, the tax elasticity of Turkey is the lowest among all the countries approaching to unity for the period 1987 - 1988, however, it was greater than unity for the previous years (for example 1.52 for period 1985 - 1987). This may partly be due to the poorer progressivity of the taxes and besides it may be the lack of incentives of the Turkish codes to allow deductibility of credits and thus limiting the credit volume. In order to check this relationship, the total tax elasticities of the past and future years should be compared as soon as they are declared.

#### 3.3.1.2 - DEMOGRAPHIC CHARACTERISTICS

One of the major problems of the Turkish economy is the high increase of the population which requires increase in resources to meet the demands; and one such requirement is to finance the continuously increasing needs of these people due to the social conditions and desires for better lives.

Another factor in explaining the demand for consumer credits is the structure of income according to age groups, in other words the earnings profile of countries. According to 1990 census, the proportion of young people (the ratio of those between 20-35 to those between 20-65+) in Turkey is 45.65 % whereas these ratios are 40 % for the U.S., 35 % for Japan, 32 % for Italy and 30 % for the U.K. (Jappelli, and Pagano, 1989).

The percentage of university and other higher educational institutions graduates in the total population is 1.88 %. On the average, people graduate from this

level of education at the age of 23-24. The unemployment rate is very high among the university graduates which means the earnings profile for Turkey is skewed to the left. In other words, the income earners are generally over their late thirties or forties.

In this respect, the income distribution in the Turkish economy can also be taken as a measure which determines people's behaviour in the economic scene. The inequality in income distribution is evident from the official studies on income groups: the first 20 % get 5.24 % of income, second 9.61 %, third 14.06 %, fourth 21.15 % and the fifth 49.94 % of the generated income (1987 Household Income and Consumption Expenditures Survey Results). The implication is that while 80 % of the income earners get half of the generated income, the other half is earned by only 20 % of income earners. The lowest income earners are getting a very small pie from the income so that they are living for subsistence and cannot make extra expenditures. The highest income group is getting half of the income generated. Consequently, the main target of the consumer loans becomes the middle income earners.

Another factor that should be considered is the family structure of the Turkish people. Young people, whether they are in educational institutions or working, live with their families before getting married or even after marriage. The share of unmarried population (of age over 12) to total population over 12 is 34.99 % (Statistical Yearbook of Turkey, 1990). This is a restricting fact from the point of view of consumer finance purposes because these people become dependent on their families. In Western countries, the children generally try to live on their own and they become net borrowers and push the demand for consumer finance tools.

### 3.3.1.3 - THE PRICE AND THE REPAYMENT STRUCTURES

The interest rate, as the price or the cost of the consumer credits is one of the most important determinants of demand. In the competitive environment of consumer credits market, banks try to lower the interest rate or provide more and more facilities to attract consumers. One such attempt belongs to Emlak Bankası as of December 4, 1991 announcing that the customers who would like to pay their existing debts once and for all would benefit from a 35 % discount.

Since consumer credits provide cash when needed, it seems as a very attractive instrument with the 5-8 % monthly interests incurred. However, the technique in calculation is not known by people so they encounter higher costs than they calculated themselves.

People usually take the monthly interest rates and use the simple interest method in calculating the total loan they are undertaking. The illustration below shows the great difference between the simple and the compound interest methods with 5 to 8 % of monthly interest rates.

<u>Interest</u>	<u>Simple Method</u>	<u>Compound Method</u>
5 %	5x12=60 %	$(1+0.05)^{12}-1 = 79.58 \%$
6 %	6x12=72 %	$(1+0.06)^{12}-1 = 101.22 \%$
7 %	7x12=84 %	$(1+0.07)^{12}-1 = 125.22 \%$
8 %	8x12=96 %	$(1+0.08)^{12}-1 = 151.82 \%$

In this context, to inform the consumer of the repayment structures will enable the protection of consumer interests.

#### 3.3.1.4 - OPTIMISM ABOUT ECONOMIC CONDITIONS

Apart from the income earnings profile of countries which is based on income and age structures of countries, general expectations and views about the economic conditions may affect the level of borrowing and lending in any economy. So, in prosperous times, the borrowing and lending may increase and in contractional periods, these kinds of transactions may shrink according to pessimism of people. For example, the "economy-sensitive" Americans have increased their real estate loans after low-unemployment level and the improved economic conditions in 1986 and there were 1.8 million new housing starts by 1987, the highest total value since 1978 (Slater, 1987). With the four years of data on consumer credits in Turkey, it is impossible to prove this argument but it sounds rather plausible from the point of view of customers. In Turkey, the economic scene is not creating optimistic thoughts. The high unemployment and inflation rates, and the uncertainty brought by continuous fluctuations in the major economic indicators do not build business or consumer confidence, in Turkey. Certainly, the unfairness of the income is another factor generating pessimistic thoughts about the economy.

Another factor determining the demand for consumer credits may be the advertisements that the banks air. The amount and quality of the advertisements increased by the prosperous economic environment may be a convincing factor for the consumers to use these loans.

#### 3.3.2 - THE CHARACTERISTICS OF SUPPLY FOR CONSUMER CREDITS

The supply of consumer credits depend mainly on two factors: the risk that the bank wants to undertake and the amount of credit funds other than the business loans.

### 3.3.2.1 - CREDIT SCORING SYSTEM

Since banks try to minimize the risks, they tend to do a "risk-selection" by eliminating the undesirable applicants. The standards of acceptability appear to be similar in broad terms. All of the banks in Turkey request the applicants to fill in the application forms which consist of questions on financial and non-financial factors to do the risk selection. By this credit scoring system, banks check the creditworthiness of their customers. The newest and popular technique is adopted by Yapı Kredi Bankası, namely "On Line-Real Time Scoring System" which is internationally used by Citibank, The Chase Manhattan and Barclays Bank PLC. (Yılmaz, 1991).

The application forms generally consist of these parts (taking İş Bankası, Ziraat Bankası, Vakıfbank, Halkbank, Pamukbank and Akbank):

- i) Identity (name, sex, marital status, education, serial number of the identity card, the passport and the driving license),
- ii) Occupation and the industry worked in (profession, work place of the applicant, the rank of the current work in applicant's life, the previous work place, the office address, duration that the applicant has been working there, the social security organization that the applicant is attached to),
- iii) Family (number of dependents, their degree of relationship, ages, occupation [if working] or education level),
- iv) Stability of residence (current address, duration lived there, type of accommodation [on hire, residence, owned], rent paid [if on hire], mortgage if

any, the value of total real estate [their surface, value determined by an expert, mortgage if any]),

v) Banking services used (bank accounts: their amounts, the name of the bank and, number of the account; previously used consumer credits and type of consumer credits),

vi) Liabilities (Debts) (total quantity, amount of monthly payments, the type of commodity or service debt is paid for),

vii) Reference (two persons who may give information about the applicant),

viii) Two guarantors (their identities, incomes, social security series, occupation, addresses, etc.),

ix) The demand for consumer credit (amount, instalment, purpose),

x) Financial situation (the sources of monthly income [salary, interest earnings due to securities and real estate, others], the sources of monthly expenditures [rent and subscription expenses, educational expenses, payments due to real estate or automobile debts, others]).

Apart from filling in the application forms, the applicants are requested to find two guarantors with a monthly income of, at least, equal to the applicant. So, the bank examines the financial situations of three people and the time needed to reply the demand is between one week to one month. For this reason some people find out that there is a high bureaucracy involved. While some of the banks give the application forms, some banks first require the applicant to convince the bank's branch top-level officer that he is a desirable applicant

before even taking an application form. These application forms have statements that point out the right of the bank to refuse the demand. The credit limits are either stated by banks or the amount demanded was asked to the applicant.

Apart from the stability of income and the likelihood of increases rather than decreases, borrower's age, health, character, experience, general employability, the nature of his occupation, the stability of business, borrower's ability to live with his income, his ability to budget, to save, and to adjust his expenditures to unusual stains, etc. are the most important factors that banks consider while doing the "risk selection" (Durand, 1941).

### 3.3.2.2 - STATISTICAL APPROACHES

Statistical studies brought about the facts when taking into consideration classifying them as good or bad risks (Durand, 1941).

- i) The classification of borrowers by sex and marital status indicates that women are better risks than men, however, there is no significant relation between risk characteristics of married and single people. There is also no significant relation between risk and the number of dependents,
- ii) Stability of residence appears to be associated with good risks,
- iii) The tendency for long periods of employment (stability of occupation) denotes good risk,
- iv) The possession of such assets as life insurance, a bank account, or real estate indicates both financial strength and personal stability and thus represents good risk,

v) A surprising finding stands as the moderate tendency between income and risk, in other words, higher incomes do not mean to be better risks,

vi) Short-term contracts are better risks than long-term contracts,

In Turkey, after the emergence and expansion of consumer credits, the determinant factor was taken as the disposable income in extending credits, so the maturities were prolonged and unlimited credits were given.

### 3.3.2.3 - SERVICES BROUGHT BY AUTOMATION OF BANKS

The structural change that accelerated the success and profitability of the banks in Turkey during the 1980s can be represented by automation, credibility, correctness, higher quality and more competition. The spread of automation brought many new services causing a greater portion of usage of the population; and besides increased the usage of banks. So, the introduction and spread of these new systems brought by automation and by improvements in information systems are determinants in the supply function of consumer credits. In this context, it is rather important to look for the reserves left for extending consumer credits from the total of reserves foregone to the credits to industry and all other funds for other services.

### 3.4 - RISKS INVOLVED IN CONSUMER CREDITS

Credit risk may be described as the probability that a loan will not be paid back according to the credit contract and is measured by the records of delinquencies, foreclosures, losses, etc. (Fiedler, 1971).

Banking system depends on the gospel of risk minimizing so banks try to do a risk selection. The problem of credit extension when risk is involved is two-fold. First and most discussed issue is to extend credits on excessively generous terms to unreliable and unproductive borrowers. In this context, the total risk is equivalent to the volume of the extended credits. On the other hand, too little and too safe credit may turn into huge amounts of unproductive reserves and a deflationary economy (Fiedler, 1971).

The latter issue can be encountered in mostly developed economies where usage of consumer credits account for 20-40 % of the total short-term loans. In Western economies, financial institutions other than banks are established in order to fulfill the need for extending consumer credits. So their total struggle for the credit extension may have serious impacts on the business cycles and the economy as a whole. The danger of extending too much credit to unreliable borrowers results in huge losses whereas that of too little and safe credits result in deflation, low levels of productivity, income and employment. This would not be the case encountered in Turkey where the amount of consumer credits accounts for about 10 % of the total of short-term loans unless other financial institutions step into a more competitive market and have a greater potential to be able to affect the economy as a whole. The situation in Turkey now conforms to the latter type of risk. Banks, as the sole institution to extend consumer credits, try to select the most reliable and productive applicants so as to minimize the risk of losses, delinquencies, etc.

U.S. suffers from much of the risks involved in consumer financing. Bankruptcy of consumers account for 25 - 30 % of all consumer credits. So, bankers try to do something against the bankruptcy losses. One such effort is credit-counseling (ABA Banking Journal, February 1990). The bank staff or outside counselors try

to help the customers to find solutions to their financial troubles and in the case of the U.S. banks are usually found guilty in extending credits too easily.

The banks that extend consumer credits and credit cards in Turkey use their own resources in pursuit of these loans. There is no mechanism for the banks to work together against the bad risks. In this context, it is possible for someone determined as a bad risk by one of the commercial banks, get unlimited credits from other banks and increase the risk for the whole system. So, it is generally believed that risk can be minimized by gathering these kinds of information in collective databanks or information centers, which also allows banks to interchange information about the customers (Ayaroğlu, 1990). Turkey has not experienced more than 1.5 % in non-returned credits to total credits ratio as was mentioned above but the spread of consumer credits by many commercial banks increases the risks involved.

The preparation of a databank has been initiated by the Banks Association of Turkey under the name "Risk Centralization Center" but it has not been activated yet.

These types of databanks have two types of information: negative (passive) and positive (active) groups. The positive group has the information for all the credit card and consumer credit users whereas the former one has information only for the bad risks, that is, the customers who failed to pay their debts on time (Ayaroğlu, 1990).

## 4 - RESEARCH DESIGN AND METHODOLOGY

The main objective of this study is to explore the perception of people towards consumer credits as a consumer financing tool. It basically draws attention to two different views: 1) the general perception on the consumer credits, and 2) the perception of those who have already used consumer credits. The results of the study are also compared with the actual outcome, i.e. the data gathered from Banks Association of Turkey where available. Besides, some regressions are run in order to see the determinants of consumer borrowing (e.g. borrowing rates, maturities, incomes, etc.) based on the statements of people who have used consumer credits.

### 4.1 - TYPE OF RESEARCH

This is an exploratory study to give some insight about the perceptions on consumer credits. This study shows what the opinions of consumers are about consumer credits and, the factors that should be taken into account in consumer financing through credits.

### 4.2 - DATA COLLECTION PROCEDURE

Data is collected with the utilization of a questionnaire (Appendix 2) designed specifically to meet the objectives of this research study. The main target for this study are the middle-income groups who may need some ready-made cash for their urgent demands. For this reason, mainly the public sector is taken for the study. In order to minimize risk, banks don't give consumer credits to the

members of the same family, so this study does not also involve questionnaires of the members of a family.

The questionnaire is composed of 28 questions. There are two main objectives of the questionnaire: 1) to gather the perceptions about consumer credits through the first and the second parts with the 19 questions; and 2) to gather information from the people who used consumer credits, with the remaining 9 questions.

There are 10 questions which are of multiple-choice type, 3 are dichotomous type and the rest 15 are of open-ended type. The open-ended type questions are aimed at gathering information on the determinant factors of consumer borrowing. These findings are, then, used in the regressions.

The first part asks questions about the demographic conditions, material possessions, education and the occupation. The second part is comprised of questions on consumer credits, instalment sales, other banking services and on brand choice, i.e. the banks to be selected by the consumers. The third part is aimed at only the ones who have used consumer credits once or more than once. If the person has taken credits more than once, he is required to answer the third, fourth and fifth questions depending on his last borrowing. The last two questions of this part are of dichotomous type and asks about their perceptions on consumer credits who have already borrowed.

## 5 - RESEARCH FINDINGS

The total number of questionnaires is 228 decomposed of 181 people who never used consumer credits, and 47 people who used consumer credits once or more. The demands of five people had been refused (two of them used other banks' credits thereafter whereas one was refused by three different banks). Of the total 47 users, 31 used it once, 10 used it twice and 5 used it three times. The average annual consumer debt of this sample of households amount to 12.07 % of their incomes.

The average age of the sample is 34.7. The monthly net income of the households is on average 4,600,000.-TL. in which 27.17% has only one income-earner. According to the education, the sample can be described by the following figures: 5.43% primary or junior school, 29.89% lycee, and 64.68% faculty graduates. According to occupation, the sample is comprised of 53.87% of employees, 7.73% of a variety of businesses, 10.34% of workers, 15.18% of academic or educational staff, 6.70% of bank staff, 4.12% of retirees and 2.06% of managers. Appendix 4 also shows the decomposition of the sample according to the assets they own; namely bank account, real estate and automobiles.

This analysis will be carried out in tables for simplicity purposes and these tables will be classified according to income and age. In referring to these income groups, "under 3,000,000.TL." will be for the lowest income group; "3,000,000 - 4,999,999.-", "5,000,000 - 6,999,999.-TL.", "7,000,000 - 10,000,000" and "above 10,000,000" will correspond to lower-middle income, middle income, upper-middle income and the highest income groups, respectively.

## 5.1 - GENERAL PERCEPTIONS

The questionnaire asked people how they would define consumer credits. Nearly one-fourth (21.88 %) of the respondents find consumer credits a good tool for purchases. More than half (56.13 %) find it expensive (See Table 4a and 4b).

Table 4a - Definition of Consumer Credits According to Household Income (%)

	Income Groups					Total
	Under 3,000,000	3,000,000 4,999,999	5,000,000 6,999,999	7,000,000 10,000,000	Above 10,000,000	
Good	16.42	21.13	22.45	21.05	44.44	21.88
Bad	-	1.41	4.08	15.79	-	2.68
Expensive	59.70	57.75	48.98	52.63	22.22	56.13
Easily available	7.46	4.23	10.20	-	5.56	6.25
Good and expensive	1.49	5.63	2.04	5.26	5.56	3.57
Good and easily available	1.49	-	6.12	-	-	1.79
Expensive and easily available	4.48	-	4.08	-	5.56	2.68
Others	8.96	9.86	2.04	5.26	16.67	8.04
Total	29.91	31.70	21.88	8.48	8.04	100.00

Table 4b - Definition of Consumer Credits According to Age Classification (%)

	Age Groups					Total
	Under 25	25 - 34	35 - 44	45 - 54	55 +	
Good	24.29	22.58	15.15	16.67	18.75	21.88
Bad	1.43	2.15	3.03	-	18.75	2.68
Expensive	50.00	50.54	66.67	66.67	50.00	56.13
Easily available	8.57	6.45	6.06	-	-	6.25
Good and expensive	7.14	3.23	3.03	-	-	3.57
Good and easily available	-	3.23	-	-	-	1.79
Expensive and easily available	4.29	2.15	3.03	-	-	2.68
Others	4.29	9.68	3.03	16.67	12.50	8.04
Total	31.53	41.89	14.86	5.41	7.14	100.00

In all income groups except for the highest group, "expensiveness" is the main characteristic attached (See Table 4a). For the highest income group, the main characteristic of the consumer credits is "goodness" with 44.44 % while "expensiveness" ranks second in this group with 22.22 %. In all the other income groups, consumer credits are defined to be expensive with high percentages while this share grows above 55 % for the lowest and lower middle income groups. "Goodness" ranks second for all these groups. There are very few people who think it is a bad idea to buy on credits. The "easy availability" is declared for all income groups, however, the general idea under the "others" item is that consumer credits are not easily available and that bureaucracy is highly involved. This fact is mainly emphasized by the lowest and the lower-middle income groups.

The age classification (See Table 4b) shows that the youngest group believe that it is a good idea to purchase on credits with 24.29 %. The 25 - 34 age group ranks second with 22.58 % in goodness and the eldest ranks third. However,

18.75 % of the eldest group also thinks that it is a bad idea to purchase on credits. In age classification, expensiveness ranks first with 56.13 % among all the other definitions.

The ones who have used consumer credits were asked whether or not they would like to apply for another credit (as soon as they pay back the current payments, if any).

Table 5 - Willingness of Those Who Used Consumer Credits To Apply For Other Loans (%)

Yes	Used Once	82.35	36.96
	More than once	17.65	
No	Used once	53.85	56.52
	More than once	46.15	
No idea			6.52

As can be seen from Table 5, 36.96 % of the respondents who have used consumer credits once or more than once state that they would think of applying for a consumer credit again. On the other hand, 56.52 % state they would not think of applying for a consumer credit again. Of the total favorers, 82.35 % (30.44 % of all the respondents) used consumer credits only once and 17.65 % (6.52 % of all the respondents) used loans more than once. However, here the interesting finding is that, of the 56.52 % of those who claim that they would not think of applying for another credit, 46.15 % (26.08 % of all the respondents) have already applied for credits twice or three times. The rest 53.85 % (30.44 % of all the respondents) claimed that they would not think of applying for consumer credits once more. All the indifferent respondents constituting 6.52 % used consumer credits only once.

The favorers of applying for other consumer credits define consumer credits "good" by 28.57 %, "bad" by 19.05 %, "expensive" by 23.81 % while the opponents define it "good" by 3.57 %, and "expensive" by 67.86 %. (See Appendix 3)

## 5.2 - WILLINGNESS TO BORROW

The goods and services that the consumers might purchase by consumer credits is classified according to income and age structures shown in Table 6a and 6b. About 77 % of the respondents think consumer credits are appropriate if it is needed to cover expenses due to illness, automobile purchases, residence and vocational aims. As can be seen from tables, consumers claim to direct their preferences mainly to residence if they were to use consumer credits, with 36.61 %. Automobile purchases rank second with 14.92 %, vocational aims rank third with 13.90 %; 11.52 % of the respondents claimed that they would use consumer credits to cover expenses due to illness and 9.49 % preferred to use consumer credits for the purchase of furniture. The least appropriate reasons, according to the respondents, are educational expenses and vacation expenses. The preferences for educational expenses are for education abroad. For all income groups, usage of consumer credits for residential purposes is the most appropriate way. Second place is almost always the automobile purchases. According to the age classification, residence takes the first place except for the eldest group who claim that it would be more appropriate to use consumer credits for expenses due to illnesses. Another interesting finding in this elderly group is their choice of vocational aims rather than others for the second place.

Table 6a - Willingness to Borrow According to Household Income (%)

	Income Groups					Total
	Under 3,000,000	3,000,000 4,999,999	5,000,000 6,999,999	7,000,000 10,000,000	Above 10,000,000	
Expenses due to illness	11.70	12.94	6.15	13.64	17.24	11.52
Educational Expenses	4.26	1.18	7.69	4.54	3.45	6.44
Automobile purchases	13.77	14.12	16.92	18.18	17.24	14.92
Vacation expenses	1.06	2.35	6.15	4.54	3.45	3.05
Residence	43.62	32.94	36.92	31.82	27.59	36.61
Furniture purchases	9.57	8.24	10.77	13.64	6.90	9.49
Vocational aims	11.70	16.47	13.85	9.09	17.24	13.90
Others	5.32	3.53	1.54	4.54	6.90	4.07
Total	31.86	28.81	22.03	7.46	9.83	100.00

Table 6b - Willingness to Borrow According to Age Classification (%)

	Age Groups					Total
	< 25	25 - 34	35 - 44	45 - 54	55 +	
Expenses due to illness	11.65	10.16	8.11	7.14	38.89	11.52
Educational Expenses	8.74	3.13	10.81	-	11.11	6.44
Automobile purchases	19.42	15.63	5.41	7.14	5.56	14.92
Vacation expenses	2.91	3.13	2.70	-	5.56	3.05
Residence	23.30	40.63	56.76	64.29	16.67	36.61
Furniture purchases	12.62	10.94	5.41	-	-	9.49
Vocational aims	16.50	10.16	8.11	21.43	22.22	13.90
Total	34.92	43.39	12.54	4.75	4.75	100.00

Table 7 shows the preferences of consumers who never used consumer credits for the goods and services.

Table 7 - Nonusers' Preferences (%)

Automobile purchases	16.67	Residence	46.38
Home appliances & furniture	2.90	Either auto. or residence	6.52
Vacation expenses	3.62	No idea	7.25
Educational expenses	4.35	Others	12.32

As can be observed in Table 7, the ones who never used consumer credits direct their preferences mainly to residence with a significant share of 46.38 %. Preferences for automobile rank second with 16.67 %. However, the percentage share of people who do not have automobiles among the non-user respondents is 56.91 % exceeding 47.51 % that do not have any real estate or immovables (See Appendix 4). Although this fact does not convey to the statistics of the Banks Association of Turkey, that most consumer credits were used for the purchase of automobiles (See Table 1), it is not surprising to see that people's preferences are generally directed towards residence rather than automobiles. In Turkey, the value of real estate soar extraordinarily. Besides, the automobiles require incremental expenses in time. The usage of consumer credits for mostly automobiles is the marketing efforts through contracts mentioned above. There is no such effort by banks for residence apart from "Yuva Kredisi" of Emlak Bankası which has a lower interest rate and a wider maturity than any of the goods or services purchased on consumer credits.

The respondents were also asked whether they would choose purchases on consumer credits or instalment credits. More than three quarters of the respondents (78.45 %) claimed that instalment sales were more advantageous compared to consumer credits. While 15.47 % of the respondents prefer

consumer credits, 6.08 % is indifferent between the two. The ones who acted rationally claiming to choose more advantageous and cheaper one has only a share of 1.10 % (See Appendix 5).

### 5.3 - RATIONALITY

An interesting finding of the questionnaire stemmed from the preferences of the respondents about the banks to apply for a consumer credit. The respondents were asked which criteria they would basically use to choose a bank for application if they want to take a loan. Table 8a and 8b show the banks chosen for application and the reasons behind this choice.

Table 8a - Bank Preferences for Consumer Credit Application (%)

	Total	Users	Nonusers
İş Bankası	25.57	14.29	26.86
Halkbank	8.68	15.87	5.14
Emlak B.	13.24	25.40	7.43
Türkbank	0.46	-	0.57
Yapı Kredi	14.16	9.52	14.29
Vakıfbank	10.96	15.87	8.00
İmar Bank.	-	-	-
Akbank	1.82	-	2.29
Dışbank	-	-	-
Garanti B.	1.37	1.59	1.14
Pamukbank	3.65	1.59	4.00
Ziraat B.	17.81	11.11	18.29
Denizbank	2.28	-	10.29
No idea	8.68	4.76	9.14

Table 8b - Bank Preferences According to Reasoning (%)

	Total	Users	Nonusers
Credibility	44.16	23.64	52.11
Advertisement	4.06	3.64	4.23
Easy availability	12.69	23.64	8.45
Lower interest, pay-back facilities	30.46	41.82	26.06
Others	8.63	7.27	9.15

The interest rates that the banks offer and the corresponding pay-back periods and facilities were intentionally not stated in the questionnaire so as to see whether people would behave rationally or not for the application of a loan.

As can be seen from Table 8b, the basic reasoning behind choosing a bank for an application is the bank's credibility with 44.16 %. The importance of bank's credibility and background increases is 52.11 % in case of nonusers but this rate decreases to 23.64 % for the users. The rational behavior, which is the lower interest and pay-back facilities, is proved by 30.46 % of the total but goes up to 41.82 % in case of users and is only 26.06 % for nonusers. These results reveal that consumers are still price-sensitive and rational for their decisions but they think irrationally when action is not necessary. İş Bankası as the choice usually goes with the reasoning of background and credibility while the reasoning behind the choice of Ziraat Bankası is its being a state-owned bank. Emlak Bankası and Vakıfbank were basically chosen for their lower interest rates and payback facilities and easy availability of credits by generally the ones who have used consumer credits; and the reasoning behind choosing Yapı Kredi Bankası is its advertisements. The ones who fall into the "others" category are generally those who are in search of a cheaper loan.

#### 5.4 - USAGE OF INDIVIDUAL BANKING SERVICES

Banks offer too many individual banking services apart from only channeling the deposits into the economy. So, while looking at the age, income, needs which are the determinants of the demand for consumer credits, the usage of all other services should be taken into account to see how people use banks in their daily lives, in other words, how they make use of the other modern technologies and facilities provided. Table 9a and 9b show the usage of individual banking services according to income and age classifications. As can be observed in Table 9a, the nonusers of any service is the lowest in the highest income group. Credit cards, ATMs and consumer credits are widely used in this group. The highest share of nonusers is the lowest income group with more than one-third of the respondents of this category. If classification according to age structure is taken into consideration, the greatest nonusers is the eldest group. The younger groups have higher involvements in all the other individual banking services. In this context, the elderly people (55 +) have the lowest share in consumer credits and credit cards; they are mostly nonusers or they use ATMs. The low share of consumer credit usage in the younger groups might be misleading because these groups (below 25 and between 25 - 34) are heavy users of all the banking services provided among which consumer credits have a lower share. Income classification also reflects the high usage of consumer credits by the middle income groups (the ones over minimum wage levels), to whom the credits are mainly aimed at.

Table 9a - Usage of Individual Banking Services According to Income Classification (%)

	Income Groups					Total
	Under 3,000,000	3,000,000 4,999,999	5,000,000 6,999,999	7,000,000 10,000,000	Above 10,000,000	
None	37.84	10.64	6.90	6.25	2.08	14.03
Credit cards	8.11	19.15	18.39	25.00	20.83	17.31
ATM	35.14	29.79	29.89	37.50	27.08	31.34
Consumer credit	14.86	15.96	11.49	15.63	10.42	13.73
Travellers' cheque	-	1.06	3.45	-	8.33	2.39
Security services	1.35	6.38	8.05	3.13	4.17	5.07
Exchange services	1.35	4.26	1.15	3.13	8.33	2.99
Safe-deposit box	-	6.38	11.49	6.25	6.25	6.27
Repurchase agreement	-	1.06	3.45	3.13	4.17	2.09
Insurance services	1.35	5.32	5.48	-	8.33	4.78
Total	22.09	28.06	25.97	9.55	14.33	100.00

Table 9b - Usage of Individual Banking Services According to Age Classification (%)

	Age Groups					Total
	< 25	25 - 34	35 - 44	45 - 54	55 +	
None	8.99	11.86	24.00	12.50	42.86	14.03
Credit cards	13.48	18.08	22.00	12.50	7.14	17.31
ATM	47.19	26.55	22.00	18.75	28.57	31.34
Consumer credit	6.74	15.82	16.00	25.00	7.14	13.73
Travellers' cheque	2.25	2.26	4.00	-	-	2.39
Security services	2.25	5.65	4.00	6.25	-	5.07
Exchange services	8.99	3.39	2.00	-	-	2.99
Safe-deposit box	4.49	6.78	4.00	18.75	14.29	6.27
Repurchase agreement	2.25	2.82	-	-	-	2.09
Insurance services	3.37	6.78	2.00	6.25	-	4.78
Total	22.09	28.06	25.97	9.55	14.33	100.00

## 5.5 - EXAMINATION OF THE USERS

Of the total 228 questionnaires, 47 respondents claimed to have consumer credits once or more. In the previous sections, the users' preferences and thoughts were given in detail in comparison with the nonusers preferences (See Tables 5, 7a, 7b and Appendix 3). In this section, the major goal is to use the data of the users (the credits' maturities, quantities, and interests) to do some generalizations and explain the importance of the partial effects of the determinants on the demand of consumer credits.

Table 10: Ordinary Least Squares Estimation for Credit Users

```

*****
Dependent variable is QUANTITY
47 observations used for estimation from 1 to 47
*****

```

Regressor	Coefficient	Standard Error	T-Ratio
INCOME	.6453	.2159	2.9895
INTEREST	-23126.4	45058.1	-.5133
CONSTANT	3968929	1961268	2.0237

```

*****
R-Squared          .1698      F-statistic F(2, 44)      4.5011
R-Bar-Squares     .1321      S.E. of Regression      6116992
Residual Sum of Squares  1.65E+15  Mean of Dependent Variable  6842915
S.D. of Dependent Variable  6566075  Maximum of Log-likelihood  -799.5894
DW-statistic      2.1917
*****

```

### Diagnostic Tests

```

*****

```

Test Statistics	LM Version	F Version
A:Serial Correlation	CHI-SQ( 1) = .5367	F( 1, 43) = .4967
B:Functional Form	CHI-SQ( 1) = 11.4650	F( 1, 43) = 13.8735
C:Normality	CHI-SQ( 2) = 168.0484	Not applicable
D:Heteroscedasticity	CHI-SQ( 1) = 2.7481	F( 1, 45) = 2.7946

```

*****

```

A:Lagrange multiplier test of residual serial correlation

B:Ramsey's RESET test using the square of the fitted values

C:Based on a test of skewness and kurtosis of residuals

D:Based on the regression of squared residuals on squared fitted values

Table 11: Ordinary Least Squares Estimation for Credit Users

```

*****
Dependent variable is QUANTITY
47 observations used for estimation from 1 to 47
*****
Regressor          Coefficient      Standard Error      T-Ratio
CONSTANT          3314493         1477982             2.2426
INCOME            .6358           .2133               2.9806
*****
R-Squared          .1649           F-statistic F( 2, 44)      4.5011
R-Bar-Squares     .1463           S.E. of Regression      6116992
Residual Sum of Squares  1.66E+15      Mean of Dependent Variable  6842915
S.D of Dependent Variable  6566075      Maximum of Log-likelihood  -799.7297
DW-statistic      2.1533
*****

```

Diagnostic Tests

```

*****
Test Statistics          LM Version          F Version
*****
A:Serial Correlation    CHI-SQ( 1) = .3410      F( 1, 44) = .3216
B:Functional Form       CHI-SQ( 1) = 12.4517    F( 1, 44) = 15.8583
C:Normality            CHI-SQ( 2) = 167.7478    Not applicable
D:Heteroscedasticity   CHI-SQ( 1) = 3.2500     F(1, 45) = 3.3429
*****

```

- A:Lagrange multiplier test of residual serial correlation
- B:Ramsey's RESET test using the square of the fitted values
- C:Based on a test of skewness and kurtosis of residuals
- D:Based on the regression of squared residuals on squared fitted values

The data collected from the questionnaires of the users are utilized to regress the quantity of consumer credits by household income and real interest rates. The real interest rate is found by deducting the change in consumer price index from annual interest rates of the loans. In the first regression (Table 10), interest has a plausible sign indicating that the higher the interest rate, lower will be the demand for consumer loans, however, it fails the t-test (probably because of the invariability of the interest rates that the banks offer) meaning that it is individually insignificant. The overall model is significant and there is no serious multicollinearity. By the variable deletion test on Table 11, the affect of income as the regressor is examined. Both the income coefficient and constant are individually significant and the overall model is also significant. However, it has a R-squared value of 16.49 %. There is no autocorrelation. The result of this regression may be summarized as follows: the determinant factor of the quantity of consumer credits extended (the risk from the point of view of banks) is a function of household income. Interest has no major impact on the quantity used by consumers which may reveal two important features mentioned above. First is the unawareness of the total cost of the credits which are calculated by compounding where the total loan is used only in the first maturity but the instalments of the pay-back are over the whole loan. Second, people have a tendency to act less rational which may be reflected in their choice of the bank to apply for a consumer credit rather than considering the costs (interest) and pay-back facilities.

Determinants other than income and interest should be taken into account. However, these are generally more qualitative data to consider, and beyond the scope of this study.

## 6 - SUMMARY AND CONCLUSION

This study mainly examines the consumer credits from the point of view of consumers as a consumer finance tool. The huge amount of consumer credits extended proves that such a tool was necessary for middle-income groups who would like to have necessities forward in time so that they would obtain a greater utility. As of December 1991, almost all the commercial banks in Turkey began or are about to begin extending consumer credits and provide other individual banking services. The highly competitive environment of the Turkish banking system urges banks to provide more facilities to customers. However, banks are very cautious in their attitudes in extending credits in order to minimize the risks incurred. This brings about a view that apart from the "expensiveness", bureaucracy is highly involved and taking consumer credits is not that easy.

Another point that arose in this study is that people prefer instalment sales to consumer credits. One reason for this may be the attitudes towards using classical banking services rather than modern ones. Another reason may be the expensiveness and bureaucracy involved. Anyhow, these kinds of services are mainly used by younger people and middle and high income groups rather than the older and lower income groups.

In Western countries, short-term loans account for about 40 % of all the total loans whereas this rate is about 10 % in Turkey. Mortgage loans serve to provide residence for many people especially in the U.S.. All banking services among which are credit cards, ATMs, consumer credits, leasing, telephone tellers, insurance, etc. are widely used in these countries as a sign of modernization. However, as was revealed in the results of the questionnaire, it is widely believed that consumer credits are expensive. This fact discourages

people to use consumer credits. Another related factor is probably the low level of usage of modern banking services. In order to increase the usage of consumer credits, banks should also try to provide such services with more suitable conditions. A switch to mortgage loans may be an encouraging factor when considered as a service for consumer financing. Other incentives to use consumer credits should also be set forth such as tax-deductibility of interests incurred to consumer credits in Turkey like in Sweden or in the U.S.. Another way to increase the usage of consumer credits may be by increasing the number and quality of credit organizations with the necessary changes in legal arrangements. Credit unions, sales finance companies, consumer finance companies, loan associations can be established to spread consumer credits.

Another important factor that should be taken into account is the risks involved for banks when extending consumer credits and other such individual banking services. Risk can be thought as the total quantity extended; however, the banks cannot insure themselves against such risks because of the lack of Bank Laws. Besides the nonexistence of a system in which a large group of people are not included in social security is a disadvantage for the banks. In this context, risk centralization is an important feature that should be provided as soon as possible in order to minimize the risk over the whole system. Although it is stated that a databank to serve risk-centralisation has been initiated by Banks Association of Turkey in April 1990, it has not been activated yet. By the way, the quality of the statistics that are collected should be improved somehow. The statistics of Banks Association of Turkey show inconsistency and discontinuity and create incredibility both because of the quality of information gathered from the banks themselves and because of the information that does not fit to the format of the statistics. Consequently, improvements in implementation can take place only in condition that these modifications are carried out successfully.

Finally, the bankruptcy rate is about 25 - 30 % of all consumer credits in the U.S.. Although the percentage share of failures to pay-back the debts are very low in Turkey according to the statistics of Banks Association of Turkey, measures should be taken to decrease the risks involved. In this context, counseling is one way used in the U.S. in which the bank staff or outside counselors try to help and find solutions to the financial problems of customers. Such a method or at least some kind of a prototype application can be initiated in the "Consumer Credit Departments" of the banks.

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**Appendix 1 - Consolidated Consumer Credits Used as of March 31, 1991  
(involves 18 banks' data)**

**a) Classification According to Occupation**

Occupation	Amount Used (mln TL)	Number of People
Worker	408,632	191,533
Employee	1,106,820	461,779
Academic and educational staff	256,332	80,799
Independent business	895,805	137,022
Managers	229,977	35,982
Occupied in agriculture	110,627	19,962
Retired	182,384	46,053
Other	458,526	67,237
Housewife	4,624	201
Student	83,408	3,123
Owner of a business	77,836	990
Corporate body	31,698	2,361
Total of the banks that don't make classification	1,017,023	224,544
<b>TOTAL</b>	<b>4,863,692</b>	<b>1,271,586</b>

**b) Classification of Consumer Credits According to Age Groups**

Age Groups	Amount Used (mln TL)	Number of People
18 - 25	186,151	62,620
26 - 35	891,918	339,612
36 - 45	953,642	328,046
46 - 55	356,827	196,513
56 - 65	106,159	29,069
66 +	31,003	12,159
Corporate body	77,836	990
Total of banks that don't make classification	2,260,156	302,577
<b>TOTAL</b>	<b>4,863,692</b>	<b>1,271,586</b>

**c) Classification According to Income Groups**

Income Group	Amount Used (mln TL)	Number of People
Less than 500,000	96,960	101,554
500,000 - 1,000,000	462,563	305,122
1,000,001 - 2,000,000	553,711	219,121
2,000,001 - 3,000,000	464,467	124,910
3,000,000 +	1,010,691	127,993
Total of banks that don't make classification	2,275,300	392,886
<b>TOTAL</b>	<b>4,863,692</b>	<b>1,271,586</b>

**d) Classification According to Education**

Level of education	Amount Used (mln TL)	Number of People
Primary or junior school	1,061,475	409,926
Lycée	591,520	187,450
Faculty or high school	846,562	285,713
Not classified	2,364,135	388,497
<b>TOTAL</b>	<b>4,863,692</b>	<b>1,271,586</b>

Source: Banks Association of Turkey

## Appendix 2 - The Questionnaire

### Part I

1. Your age: \_\_\_\_\_
2. Your personal monthly income:  
\_\_\_\_\_
3. Monthly net income of the household:  
\_\_\_\_\_
4. Approximate amount of your bank account, if any: \_\_\_\_\_
5. Approximate value of your real estate, if any:  
\_\_\_\_\_
6. Approximate value of your automobile, if any:  
\_\_\_\_\_
7. Number of persons constituting the household:  
\_\_\_\_\_
8. Your education:
  - a) Primary or junior school
  - b) Lycee
  - c) Faculty or high school
9. Your occupation:
  - a) Worker
  - b) Employee
  - c) Academic or educational staff
  - d) Independent business
  - e) Manager
  - f) Occupied in agriculture
  - g) Retired

- h) Housewife
  - i) Student
  - j) Owner of a business
  - k) Other (define):
- 

*Part II*

1. Have you ever utilised one or more of the following individual banking services ?

- a) Credits card
- b) ATM (Automated teller machine)
- c) Consumer credit
- d) Travellers' cheque
- e) Security services
- f) Investment consultation
- g) Portfolio management
- h) Insurance services
- i) Exchange services
- j) Safe-deposit box
- k) Repurchase agreement

2. How can you define consumer credits?

- a) Good
- b) Bad
- c) Expensive
- d) Cheap
- e) Easily available
- f) Other (define): \_\_\_\_\_

3. If you decide to take consumer credit, what would you utilize the credit for?

- a) Automobile purchase
- b) Purchase of home appliances and furniture
- c) Vacation expenses
- d) Educational expenses
- e) Residence
- f) Other (define): \_\_\_\_\_

4. Number of credit cards you own: \_\_\_\_\_

5. If you compare the consumer credits and the instalment sales, which one would you prefer?

- a) Instalment sales
- b) Consumer credits

6. Which of the following is the most appropriate to utilize consumer credits, according to you?

- a) To cover some expenses due to illness
- b) To cover educational expenses
- c) To purchase an automobile
- d) For vacation purposes
- e) To purchase home appliances
- f) For residence
- g) To purchase furniture
- h) For vocational aims

7. Which of the following is the most appropriate to utilize instalment sales, according to you?

- a) To cover some expenses due to illness
- b) To cover educational expenses
- c) To purchase an automobile
- d) For vacation purchases
- e) To purchase home appliances
- f) For residence
- g) To purchase furniture
- h) For vocational aims
- i) To purchase luxury goods (define):

---

8. Has any of your attempts failed for taking consumer credit?

- a) I have never applied for a consumer credit.
- b) Yes (which bank): \_\_\_\_\_
- c) No

9. What is/might be your criteria for choosing a bank to apply for a consumer credit?

- a) The bank should have a certain background providing a credibility.
- b) The advertisements about consumer credits are very appealing and convincing.
- c) Probably, it is easier to take consumer credit compared to the other banks.
- d) Provides lower interest rates and payback facilities.
- e) Other (define):

10. If you decide to take consumer credit, which one of the following banks would you choose to apply?

- |                       |                    |
|-----------------------|--------------------|
| a) İş Bankası         | g) Akbank          |
| b) Halkbank           | h) İmar Bankası    |
| c) Emlak Bankası      | i) Garanti Bankası |
| d) Türkbank           | j) Pamukbank       |
| e) Yapı Kredi Bankası | k) Ziraat Bankası  |
| f) Vakıfbank          | l) Denizbank       |

*Part III*

(This part will be replied by only those who have already used consumer credits once or more. Those who used consumer credits more than once should give information about the last credit they have used, unless otherwise stated)

1. How many times have you applied for consumer credits?

\_\_\_\_\_

2. How many times have you utilized consumer credits?

\_\_\_\_\_

3. The type of the credit:

\_\_\_\_\_

4. The amount of the credit:

\_\_\_\_\_

5. The maturity of the credit:

\_\_\_\_\_

6. The interest rate of the credit:

\_\_\_\_\_

7. The total amount of the consumer credits you used:

\_\_\_\_\_

8. Would you consider applying for another credit as soon as you pay back your last credit?

a) Yes

b) No

9. Have you used the credit for the aim you applied for?

a) Yes

b) No

**Appendix 3 - Classification According to Definition (%)**

	Favorers	Opponents	Rest
Good	28.57	3.57	18.80
Bad	19.05	-	-
Expensive	23.81	67.86	55.64
Easily available	4.76	3.57	3.01
Good and expensive	-	10.71	7.52
Good and easily available	9.52	-	-
Others	14.29	14.29	15.03

**Appendix 4 - Classification of the Respondents According to the Assets They Own (%)**

Bank Account	None	48.62
	Less than 1,000,000	4.97
	1,000,000 - 1,999,999	1.10
	2,000,000 - 2,999,999	2.21
	3,000,000 - 4,999,999	3.31
	5,000,000 - 9,999,999	4.42
	10,000,000 - 50,000,000	9.39
	More than 50,000,000	1.10
Real Estate	None	47.51
	Less than 50,000,000	3.87
	50,000,000 - 99,999,999	6.08
	100,000,000 - 149,999,999	3.87
	150,000,000 - 200,000,000	6.63
	More than 200,000,000	7.18
Automobile	None	56.91
	10,000,000 - 24,999,999	6.62
	25,000,000 - 45,000,000	7.73
	More than 45,000,000	3.87

**Appendix 5 - Preferences of the Respondents Between Instalment Sales and Consumer Credits (%)**

Instalment Sales	78.45
Consumer Credits	15.47
No idea	6.08
More advantageous	1.10