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THE EFFECT OF INTEREST BANK AND PRODUCT QUALITY ON LOAN CUSTOMER LOYALTY, WHICH WAS MEDIATED BY CUSTOMER SATISFACTION AT BPR JATIM (PERSERODA), A BRANCH OF GRESIK

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Abstract. This study determines and analyzes the effect of interest and product quality on customer loyalty, which was mediated by customer satisfaction at BPR Jatim (Perseroda), a branch of Gresik. The study applies quantitatively. Furthermore, the population consists of customers who take credit at BPR Jatim (Perseroda), a branch of Gresik. The data collection technique used was purposive sampling with 237 respondents as samples. Moreover, the instrument in the data collection technique was a questionnaire. The questionnaires had been tested for their validity and reliability. The data analysis technique used was Partial Least Squares (PLS). As a result, it shows that as follows: (1) interest has a positive but insignificant effect on customer satisfaction, (2) product quality has a positive and significant effect on customer satisfaction, (3) interest has a positive and significant effect on customer loyalty, (4) product quality has an insignificant effect on customer loyalty, (5) customer satisfaction has an insignificant effect on customer loyalty, (6) customer satisfaction cannot mediate significantly the interest on customer loyalty, and (7) customer satisfaction cannot mediate significantly the product quality on customer loyalty.

Keywords: interest, product quality, customer satisfaction, customer loyalty, and Partial Least Squares.

1. Introduction

In this modern era, everything is demanded to be fast. The financial services industry is one of the fastest growing industries, with a variety of technologies on offer. In this era, competition between companies offering convenient banking services, especially credit/loans, is inevitable. With today's diverse human needs, each company offers a variety of facilities to attract as many potential customers as possible to maintain market share and maintain company consistency. Product quality, company innovation, and ease of access to credit facilities are no longer guarantees of customer loyalty, which will automatically increase the number of customers.

Banks are financial institutions whose primary function is to channel funds to the public in the form of loans or credit that can help the community's economy develop and grow their businesses. Various strategies to maintain and expand market share are being implemented by Bank BPR Jawa Timur (Perseroda), Gresik Branch. These strategies include improving product quality, expanding product variants, providing competitive interest rates, and establishing several branches and unit offices in various regencies and sub-districts. This demonstrates Bank BPR Jawa Timur (Perseroda), Gresik Branch's commitment to continuous development. According to Syahrul (2017), interest, in conventional economic terms, is a reward provided by banks based on conventional principles to customers who buy or sell their products. Competitive interest rates are a driver of increased credit distribution, while exorbitant financing costs are relied upon to attract customers to obtain loans (Handayani, 2023).

Customer satisfaction is the primary goal of every service business, and having as many loyal customers as possible is the hope of every company, including Bank BPR Jawa Timur (Perseroda) Gresik Branch. Customer loyalty is crucial for service companies. Loyal customers are able to provide referrals, repeat service usage, and indirectly promote the company, increasing the bank's profits. One indicator for increasing bank profits is ensuring that every customer is satisfied with the bank's interest rates on their loans and the quality of the products the company offers.

Customer satisfaction and loyalty are crucial for companies to maintain their long-term sustainability. Customers can form positive value perceptions of products they perceive as superior. Maximizing company value is one way to empower long-term customers. Customer satisfaction can be created through competitive bank interest rates and high-quality products to encourage purchases and foster long-term relationships, thus fostering trust that leads to customer loyalty.

Based on various research conducted in banking companies by Sriyono and Rofila (2023), Handayani et al. (2023), Purwanto and Hapsari (2020), Qudratullah and Firmansyah (2024), and Jamaluddin and Wahjoedi (2021), the researcher chose to use the variables of bank interest and product quality to measure customer satisfaction and loyalty at Bank BPR Jatim (Perseroda) Gresik Branch. Although there are many other variables, the researcher focused more on these four variables to determine customer loyalty at Bank BPR Jatim (Perseroda) Gresik Branch.

2. Literature Review

Bank BPR Jatim (Perseroda)

Bank BPR Jatim (Perseroda) is a provincial-owned company in East Java that provides financial services to the people of East Java in general. It is committed to helping the community improve their businesses. Bank BPR Jatim (Perseroda) has a clear vision and mission: to be a healthy and growing bank, supported by professional and highly integrated human resources, focused on MSMEs and Cooperatives. Its mission is to contribute to the East Java economy through the development of MSMEs (Micro, Small, Medium Enterprises, and Cooperatives), primarily in the agricultural and other economic sectors, and to improve digital-based services (BankUMKM.id). Bank BPR Jatim (Perseroda) has 32 branches spread across all regencies in East Java and 122 cash offices that support the company's operational role in financial services for the welfare of the community. Bank BPR Jatim (Perseroda) Gresik Branch is one of the branches operating in Gresik Regency, supporting the creation of prosperity for the East Javanese economy. In the performance of credit provided by Bank BPR Jatim (Perseroda) Gresik Branch from year to year shows a less significant trend compared to the number of customers provided, this makes the expansion of product marketing also affect the performance and cooperation of customers with financial institution services.

Marketing Mix

According to Yamini (2022), the marketing mix is a set of marketing strategies consisting of basic elements that companies use to influence consumer purchasing decisions and promote their products or services. This marketing concept consists of four key aspects known as the 4Ps: product, price, promotion, and place. These elements are integrated into the marketing strategy to create value for customers, build brand image, and achieve company sales goals.

Bank Interest

Bank interest is the reward provided by banks to customers for products purchased or sold. According to Dakhoir and Tarantang (2020), bank interest is the profit taken by banks and is usually set as a percentage on a monthly or annual basis, calculated from the amount of the loan taken out by the customer. Bank interest is divided into two types: deposit interest rates and credit interest rates. Deposit interest is the reward provided by banks to customers who

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deposit their money in the bank. Loan interest is the reward provided by banks to customers who obtain loans. The use of credit interest rates is the focus of this study. The functions of interest rates, according to Windari et al. (2020), include: (a) Acting as an attraction for savers who have excess funds to invest. (b) Interest rates can be used as a monetary tool to control the supply and demand for money circulating in an economy. According to Syahrul (2017), the factors influencing bank interest rates are as follows:

a. Profitability of Funds
b. Competition
c. Government Policy
d. Desired profit target
e. Timeframe
f. Quality assurance
g. Competitive products
h. Good relationships
i. Third-party guarantees

Product Quality

According to Syarifuddin et al. (2021), good quality, according to manufacturers, is defined as a product produced by a company that meets the company's specifications. Poor quality is defined as a product that fails to meet the specified standard specifications and results in a damaged product. Syarifuddin et al. (2021) also stated that product quality factors or dimensions consist of the following aspects:

1) Performance
2) Product Diversity (Features)
3) Reliability
4) Conformance
5) Durability
6) Serviceability
7) Aesthetics
8) Perceived Quality

Aesthetics is the most subjective dimension of measurement. A product's aesthetics are assessed through how it sounds to consumers, how it looks, how it tastes, and how it smells. Therefore, aesthetics is clearly a judgment and reflection felt by consumers. Consumers do not always have complete information about product and service attributes. However, consumers usually have indirect information about products, for example through brand names, names, and countries of manufacture.

Customer Satisfaction

Customer satisfaction can only be achieved by providing quality services and products to customers. A good product is often directly assessed by customers. Therefore, efforts are needed to improve the quality of the products provided to meet the desires and increase customer satisfaction at Bank BPR Jatim (Perseroda) Gresik Branch. Therefore, product quality is a crucial factor that must be considered by the company to achieve customer satisfaction. Customer satisfaction will be achieved if the service delivery process from the bank to customers aligns with the perceptions of Bank BPR Jatim (Perseroda) Gresik Branch customers. According to Vivi et al. (2021), the factors driving customer satisfaction are:

a. Product Quality
b. Service Quality

c. Emotional Factor
d. Price
e. Cost or Convenience

Customer Loyalty

Loyalty is a person's devotion or adherence to a brand, product, or service. In a business context, customer loyalty refers to a customer's positive attitude and consistent commitment to a brand or company. Loyal customers generally make consistent purchases, recommend products or services to others, and remain loyal to their favorite products or services. Increasing customer loyalty is a crucial factor in achieving long-term business success, as loyal customers tend to contribute more to a company's revenue and growth (Kotler, 2022). Customer loyalty is the level of loyalty and adherence to a particular brand, product, or service, resulting from a commitment that leads customers to choose to continue purchasing products or using services from that particular company, even when faced with a wider range of choices. They also tend to provide positive recommendations to others and can be a key factor in enhancing a company's reputation. According to Maulyan et al. (2022), services are intangible, meaning they cannot be seen, tasted, smelled, heard, or touched before being purchased and consumed. Therefore, consumers cannot assess the quality of a service until they experience it. According to Islamiyah et al. (2022), the factors influencing bank customer loyalty are: 1. Value This relates to price and quality. Customers will not abandon a product they believe to be of good quality, even at a high price. Conversely, customers will be disappointed if quality is reduced to maintain the price. 2. Image A company's image is perceived favorably, resulting in a large market share and increased loyalty. 3. Convincing and easy to obtain. If a product is difficult to obtain on the market, customers will try other, more readily available products. 4. Satisfaction This can also keep customers loyal to a product or service. Philip Kotler emphasized that customer satisfaction is the level of satisfaction a person feels after comparing the performance or results they experience with their expectations. 5. Service Good service explanations during or after a purchase can enhance the perception of high quality, ultimately leading to stronger and more loyal customers. 6. Guarantee (Guarantee or Warranty) Can be used by manufacturers to add value to their products and demonstrate that they care about their customers. 7. Product Quality Good product quality directly impacts customer satisfaction levels. Consistent quality results in loyal customers who consistently purchase or use the product, a practice known as customer loyalty.

Conceptual Framework

This study uses bank interest rates and product quality as exogenous variables. Additionally, customer loyalty serves as an endogenous variable and customer satisfaction as a mediating variable. Therefore, the conceptual framework can be described as follows:

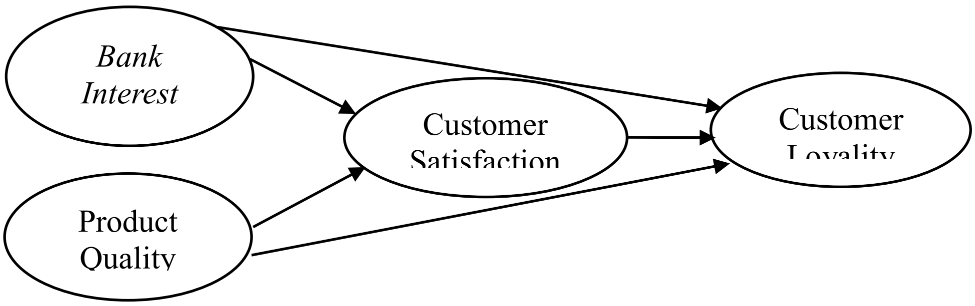

Figure 1 : Conceptual Framework
Source : Research

Hypothesis Development

A research hypothesis is a tentative answer to the problem formulation, derived from relevant theory and requiring validation through empirical data analysis. This hypothesis is built on a theoretical framework and formulated in the form of a statement. Not all research requires a hypothesis; exploratory research (such as that using qualitative methods) may not always require a hypothesis. Several hypotheses related to the relationship structure between bank interest rates, product quality, customer satisfaction, and customer loyalty can be broken down into developing hypotheses. H1: Bank interest rates have a significant effect on customer satisfaction at Bank BPR Jawa Timur (Perseroda) Gresik Branch. H2: Product quality has a significant effect on customer satisfaction at Bank BPR Jawa Timur (Perseroda) Gresik Branch. H3: Bank interest rates have a significant effect on customer loyalty at Bank BPR Jawa Timur (Perseroda) Gresik Branch. H4: Product quality has a significant effect on customer loyalty at Bank BPR Jawa Timur (Perseroda) Gresik Branch. H5: Customer satisfaction significantly influences customer loyalty for loans at Bank BPR Jawa Timur (Perseroda), Gresik Branch. H6: Bank interest rates significantly influence customer loyalty through customer satisfaction for loans at Bank BPR Jawa Timur (Perseroda), Gresik Branch. H7: Product quality significantly influences customer loyalty through customer satisfaction for loans at Bank BPR Jawa Timur (Perseroda), Gresik Branch.

3. Method

The type of research the researcher will use is quantitative research. This is because the variables studied are converted into scoring variables that can be assessed for accuracy, and the results can be evaluated numerically. Based on the research objective, the researcher seeks answers by analyzing the variables of Bank Interest, Product Quality, and Customer Loyalty through Customer Loyalty at Bank BPR Jatim (Perseroda) Gresik Branch.

The research population of Bank BPR Jatim (Perseroda) Gresik Branch credit customers consists of all credit customers who use financial services for loans. In this case, loyal customers who have used Bank BPR Jatim (Perseroda) Gresik Branch services more than twice were selected. The total credit customer population as of December 31, 2024, was 1,208 customers, of which 579 customers were loyal customers with more than two credit applications. Using the Slovin formula, the sample size was 236.56 respondents, rounded up to 237 respondents, with a 5% sampling error.

The type of research used by the researcher is quantitative research. This is because the variables studied are converted into scoring variables that can be assessed for accuracy, and the results can be evaluated numerically. Based on the research objectives, the researcher seeks answers by analyzing the service quality variable on customer satisfaction at Bank BPR Jatim (Perseroda) Gresik Branch. This research was conducted at Bank BPR Jatim (Perseroda) Gresik Branch, one of Bank BPR Jatim (Perseroda)'s branches throughout East Java. The researcher conducted this study due to the phenomenon of a large number of credit customers who have not grown significantly over the past 10 years. This is a matter of concern because the researcher is specifically at Bank BPR Jawa Timur (Perseroda) Gresik Branch Office. The benefits of this research are expected to increase customer loyalty and significantly increase the number of credit customers. Furthermore, Bank BPR Jatim (Perseroda) Gresik Branch has significant potential to improve customer satisfaction and thus gain loyalty. The sampling technique used was purposive sampling. Purposive Sampling is a sampling technique with certain considerations according to the desired criteria. The reason for using this technique is because not all samples meet the criteria studied. The sampling criteria are credit customers with more than two credit applications and customers who have been credit customers of Bank BPR Jatim (Perseroda) Gresik Branch for a minimum of one year since the research was conducted. The data collection technique used in this study is a questionnaire distributed to respondents, which contains a list of written questions addressed to respondents. The data source used in this study is primary data. Primary data is data obtained directly from the research object where the results are in the form of personal responses or opinions of respondents. Respondents will receive questionnaires distributed by researchers to then be filled in in the form of answers or opinions of respondents regarding the questions presented in the questionnaire. The questionnaire collected from the results of respondents' answers or responses will then become a data source in creating data tabulation in the PLS output source.

Instrument Testing

1. Validity Testing

Validity testing is conducted to determine whether the indicators proposed in the questionnaire represent all the information that should be measured. Validity testing is conducted by considering all indicators included in the questionnaire questions, namely by calculating the correlation coefficient for each question. Validity testing methods are carried out using several tests, including:

a. Convergent Validity

Convergent validity testing with reflective indicators is based on the loading factor or outer loading value (a value that indicates the proportion of data diversity that can be analyzed through statement indicators) of the indicators used to measure the variables. According to Jogiyanto (2015:195), an outer loading value is considered partially significant if it has a criterion value > 0.70; conversely, it is considered insignificant if the outer loading value is < 0.70.

b. Discriminant Validity

Discriminant validity testing is used to ensure that each concept in each latent model will differ from other variables. This test can be assessed based on the cross-loading of the indicator measurements with the variables. In the discriminant validity test, the criterion is determined by the cross-loading value for each variable, if it is >0.7, then it is considered valid. Conversely, if the cross-loading value for each variable is <0.7, then it is considered invalid.

2. Reliability Test

Reliability testing is used to measure and confirm whether a research questionnaire containing research instruments is reliable. Reliability testing is indicated by the composite reliability value, which measures the reliability of a construct. A variable is considered to have high reliability if the composite reliability value is >0.70.

Partial Least Square (PLS)

The analytical approach used to examine the data in this study was the Partial Least Square (PLS) method. Partial Least Square (PLS) analysis has two sub-models: the measurement model, also known as the outer model, and the structural model, also known as the inner model. According to Irwan and Adam (2015), the stages of Partial Least Square are: 1. Designing the Structural Model (inner model). There are three tests in the structural model: structural model testing, R-Square testing, and hypothesis testing. a. Structural Model Testing b. R-Square Testing c. Hypothesis Testing 2. Designing the Measurement Model (outer model). Designing the Measurement Model (outer model) involves designing the relationship between the indicators and the research variables. 3. Constructing a path diagram based on the outer and inner model designs. The results of the outer and inner model designs are presented in the form of path diagrams for easier understanding. 4. Converting the Path Diagram to a System of Equations for latent variables and their indicators. In PLS, the design of the outer model is crucial, whether it is reflective or formative. Parameter estimates in PLS are obtained through a three-stage iteration process, with each stage producing estimates. The following are the steps in PLS parameter estimation: a. Weight estimate: The first stage produces a weight estimate used to create latent variable scores. Weight estimates are obtained through two methods: mode A and mode B. Mode A is designed to obtain weight estimates with reflective indicator types, while mode B is designed to obtain weight estimates with formative indicator types. b. Path estimate: The second stage produces path estimates connecting the latent variables and loading estimates between the latent variables and their indicators. c. These estimates are obtained through inner and outer model estimation. d. Mean and parameter location (constants) estimation: This stage is based on the original data matrix and the results of the weight and path coefficient estimations in the second stage. The goal is to calculate the mean and parameter location. 5. Goodness of Fit Evaluation a. Outer Model: Convergent validity, discriminant validity, composite reliability, and Cronbach's alpha. b. Inner Model: The structural model (inner model) is evaluated by examining the percentage of explained variance, namely by examining the R-square for the dependent latent construct using the Stone-Geisser Q-square test, and also by observing the magnitude of the structural path coefficient.

In using Partial Least Square (PLS), researchers can describe the full model as follows:

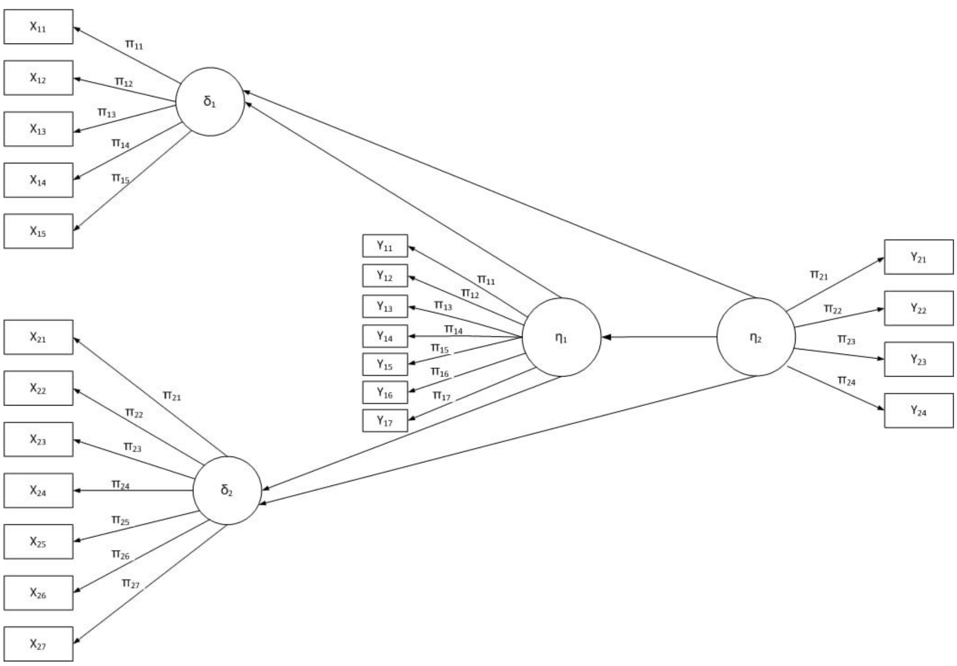

Figure 2 : PLS Model

Source : Research

4. Result and Discussion

Descriptive Analysis

This study involved 237 respondents who were loyal customers of Bank BPR Jatim (Perseroda) Gresik Branch, namely customers who had taken out loans more than twice. Respondent characteristics were obtained through distributed questionnaires. The following are respondent characteristics based on gender. a. Respondent Characteristics by Gender The following table presents respondent characteristics by gender to determine the number of male and female customers who had taken out loans more than twice at Bank BPR Jatim (Perseroda) Gresik Branch. The descriptive test results show that 135 respondents were male, or 57%, while 102 respondents were female, or 43%. These results indicate that the majority of respondents who are loyal customers of Bank BPR Jatim (Perseroda) Gresik Branch are male.
All 237 respondents were customers who had applied for credit more than twice. These results indicate that all respondents met the research criteria: loyal customers who had repeatedly used Bank BPR Jatim (Perseroda) Gresik Branch's credit services.

Convergent Validity Test

Convergent validity is used to assess the extent to which an indicator represents the latent variable being measured. This validity is considered met if the indicator has an outer loading value of more than 0.70, indicating a fairly strong relationship with the variable. Thus, most indicators met the convergent validity criteria. This indicates that the majority of indicators used in this study have good measurement quality. Although some indicators did not meet the established threshold, they can still be used as long as the Average Variance Extracted (AVE) value for the related variables meets the minimum requirement of 0.50.

Discriminant Validity Test

The discriminant validity test is conducted by examining the cross-loading values for each indicator. If an indicator has a cross-loading value above 0.70, it is considered valid. The table below shows the cross-loading values for each indicator in this study.

The results of the discriminant validity test indicate that most of the indicators in this study have the highest loading values on the variables they measure. Indicators for Bank Interest, Product Quality, Customer Satisfaction, and Customer Loyalty generally clearly differentiate their respective variables from each other. This indicates that the majority of indicators meet discriminant validity and accurately represent their respective variables.

Reliability Test

Reliability testing is demonstrated by the composite reliability value, which measures the reliability of a construct. A variable is considered reliable if its composite reliability value is greater than 0.70. Based on the results of the table above, the variables Bank Interest, Product Quality, and Customer Satisfaction have composite reliability values above 0.70, thus they can be declared reliable. These three variables have met the criteria for good internal consistency and are able to measure the construct stably. Although the Customer Loyalty variable shows a value below the minimum limit, most variables in this study have met reliability requirements, so in general, the instrument used is considered suitable for use in further analysis.

Structural Model Testing

Structural model testing is used to determine the magnitude of the influence, whether positive or negative, on direct and indirect influences. Testing the Direct Influence Structural Model This test is conducted to identify the magnitude of the direct influence between exogenous, endogenous, and mediating variables. The influence value is shown in the original sample, where a value greater than zero indicates a positive influence between the variables. The larger the coefficient value, the stronger the influence of one variable on the other.

Table 1. Original Sample Output

Pengaruh Variabel	*Original Sample*	Keterangan
Interest Bank → Customer Satisfaction	0,102	**Positive**
Interest Bank → Customer Loyality	0,676	**Positive**
Product Quality → Customer Satisfaction	0,760	**Positive**
Product Quality → Customer Loyality	-0,067	**Negatif**
Customer Satisfaction → Customer Loyality	0,199	**Positive**
Interest Bank → Customer Satisfaction → Customer Loyality	0,020	**Positif**
Product Quality → Customer Satisfaction → Customer Loyality	0,151	**Positif**

The following equation can be made:

$$KN = 0{,}102\ BB + 0{,}760\ KP$$

$$LN = 0{,}676\ BB - 0{,}067KP + 0{,}199KN$$

The results of the structural model test and the resulting equations can be explained as follows.

1. The Bank Interest variable has a positive effect on Customer Satisfaction with a direct effect value of 0.102. This indicates that improving customer perceptions of the set interest rate can lead to increased satisfaction, although the effect is relatively weak. Furthermore, Bank Interest also has a positive effect on Customer Loyalty with a value of 0.676. This indicates that the better the customer's perception of bank interest, the higher the level of customer loyalty tends to be.
2. The Product Quality variable shows a positive effect on Customer Satisfaction with a value of 0.760. This means that the higher the quality of the product offered, the higher the level of customer satisfaction. However, Product Quality has a negative effect on Customer Loyalty with a value of -0.067. These results indicate that improving product quality does not necessarily increase loyalty directly and can even lead to a downward trend if not supported by other factors such as service experience or long-term satisfaction.
3. The Customer Satisfaction variable has a positive effect on Customer Loyalty with a value of 0.199. This shows that satisfied customers tend to have higher loyalty to the services provided by Bank BPR Jatim (Perseroda) Gresik Branch.
4. Variabel Bunga Bank memiliki pengaruh tidak langsung yang positif terhadap Loyalitas Nasabah melalui Kepuasan Nasabah dengan nilai sebesar 0,020. Artinya, persepsi positif nasabah terhadap bunga bank dapat meningkatkan loyalitas dan terjadi secara tidak langsung melalui peningkatan kepuasan nasabah.

5. Variabel Kualitas Produk juga menunjukkan pengaruh tidak langsung yang positif terhadap Loyalitas Nasabah melalui Kepuasan Nasabah (KN) dengan nilai sebesar 0,151. Hal ini menunjukkan bahwa kualitas produk yang baik dapat meningkatkan loyalitas nasabah, terutama jika didukung oleh tingginya tingkat kepuasan yang dirasakan.

Table 2. R-Square (R^2) Output

	***R-Square* (R^2)**	*Adjusted R-Square*
Cutomer Satisfaction	0,705	0,703
Customer Loyality	0,591	0,586

Based on the table above, the R-Square value for the Customer Satisfaction variable is 0.705, which is categorized as strong. This means that the Bank Interest and Product Quality variables together can explain 70.5% of the variation in customer satisfaction, while the remainder is influenced by other variables outside the research model. Meanwhile, the R-Square value for the Customer Loyalty variable is 0.591, which is in the moderate category. This indicates that the Bank Interest, Product Quality, and Customer Satisfaction variables can explain 59.1% of the variation in customer loyalty, with the remaining 40.9% explained by other factors outside the model.

Table 3. Hypotesis Testing

No	Influence of Variable	*P-Value*	Information
1.	Interest Bank → Customer Satisfaction	0,109	**Not Significant**
2.	Interest Bank → Customer Loyality	0,000	**Significant**
3.	Product Quality → Customer Satisfaction	0,000	**Significant**
4.	Product Quality → Customer Loyality	0,543	**Not Significant**
5.	Customer Satisfaction → Customer Loyality	0,072	**Not Significant**
6.	Interest Bank → Customer Satisfaction → Customer Loyality	0,109 ; 0,072	**Not Significant**
7.	Product Quality → Customer Satisfaction → Customer Loyality	0,000 ; 0,072	**Not Significant**

H1 : The Effect of Bank Interest Rates on Customer Satisfaction

The effect of bank interest rates on customer satisfaction was declared insignificant, with a p-value of 0.109, which is greater than 0.05. This indicates insufficient evidence that bank interest rates directly influence customer satisfaction. This is because the majority of loan customers at Bank BPR Jatim (Perseroda) Gresik Branch have a good emotional relationship with the employees of Bank BPR Jatim (Perseroda) Gresik Branch, so bank interest rates are not a factor in deciding whether to take out a loan. Bank BPR Jatim (Perseroda) Gresik Branch loan customers will continue to make loan transactions due to this good relationship, even if the interest rates do not meet their expectations.

The analysis shows that bank interest rates do not significantly influence customer satisfaction at Bank BPR Jatim (Perseroda) Gresik Branch. This indicates that changes in interest rates have not had a strong enough impact on directly shaping customer satisfaction perceptions. These results align with a Boston Consulting Group report (2021), which asserted that interest rates alone are insufficient to drive customer satisfaction, given the presence of other, more dominant variables such as trust in financial institutions and the quality of service provided.

Nevertheless, as a banking company, Bank BPR Jatim (Perseroda) Gresik Branch still has the opportunity to improve customer satisfaction through alternative approaches, such as providing adequate education regarding interest rate structures and transparency regarding additional fees upon loan disbursement. This approach is supported by a study by Khashman (2023), which found that customer understanding of service mechanisms and the cost components charged significantly contribute to customer satisfaction perceptions.

H2 : The Effect of Product Quality on Customer Satisfaction

Bank interest rates significantly influence customer loyalty, with a p-value of 0.000, which is less than 0.05. This indicates that the more positive a customer's view of bank interest rates, the greater their tendency to remain loyal to the bank's services. This indicates that offering competitive bank interest rates to loan customers at Bank BPR Jatim (Perseroda) Gresik Branch automatically fosters customer loyalty.

The analysis shows that product quality at Bank BPR Jatim (Perseroda) Gresik Branch significantly influences customer satisfaction as respondents responded to the questionnaire. This means that the better the products offered by Bank BPR Jatim (Perseroda) Gresik Branch, the higher the level of customer satisfaction. These results align with research by Sitorus and Yustisia (2018), which demonstrated a positive relationship between product quality, satisfaction, and customer loyalty in the Indonesian banking sector.

These results suggest that enhancing product features and strengthening usability, such as ease of access to digital services, user convenience, and customer-driven innovation, are strategic steps that can directly increase loan customer satisfaction at Bank BPR Jatim (Perseroda) Gresik Branch. This finding is also supported by research by Mukherjee and Nath (2003), which emphasized that product quality and ease of service are key factors in shaping positive customer experiences with banking services.

H3 : The Effect of Bank Interest Rates on Customer Loyalty

Product quality has a significant influence on customer satisfaction, as evidenced by a p-value of 0.000, which is below 0.05. This indicates that improving product quality at Bank BPR Jatim (Perseroda) Gresik Branch can directly increase customer satisfaction. Product quality is demonstrated by the availability of product innovations that customers can choose for various other needs, such as gold loans (precious metals), motor vehicle loans, deposit-backed loans, or multipurpose loans.

The analysis shows that bank interest rates significantly influence customer loyalty at Bank BPR Jatim (Perseroda) Gresik Branch. This finding indicates that setting competitive interest rates plays a role in increasing loyalty, although it does not directly impact customer satisfaction. These results align with an Accenture report (2024) which states that approximately 80% of customers consider interest rates a primary consideration when choosing a bank.

This perspective reinforces the importance of pricing strategy as an approach to maintaining customer loyalty. Implementing interest-based loyalty programs, such as offering competitive

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interest rates to loyal customers, can be an effective way to retain existing customers. This strategy is also supported by findings from Deloitte (2023), which emphasize that personalized and relevant offers can strengthen long-term relationships between customers and banking institutions.

H4 : The Effect of Product Quality on Customer Loyalty

Product quality has no significant effect on customer loyalty, as the p-value of 0.543 exceeds 0.05. This indicates that customer loyalty at Bank BPR Jatim (Perseroda) Gresik Branch is not directly determined by the quality of the products offered, as other factors such as service quality, ease of access to the nearest office, and other factors contribute.

The analysis results indicate that product quality has no significant effect on customer loyalty at Bank BPR Jatim (Perseroda) Gresik Branch. This suggests that although product quality is an important element in attracting customers, its presence alone is not sufficient to build strong loyalty. This finding aligns with research by Yenni et al. (2020), which states that product quality needs to be combined with other factors such as service quality and customer trust to significantly influence loyalty.

These results also suggest that banks need to integrate product quality improvement strategies with superior service quality and communications that build long-term trust. A study by J.D. Bank and J.D. Bank (2020) found that product quality is a key factor in customer loyalty. Power (2022) also confirmed that customer loyalty is shaped more by emotional aspects, such as trust in the institution and consistent service experiences, than by product quality alone.

H5 : The Effect of Customer Satisfaction on Customer Loyalty

Customer satisfaction has an insignificant effect on customer loyalty, as indicated by a p-value of 0.072, which is greater than 0.05. This means that even though loan customers at Bank BPR Jatim (Perseroda) Gresik Branch are satisfied, this does not necessarily translate into loyalty. Therefore, other variables such as product innovation, gift giving, and customer trust are needed to support customer satisfaction at Bank BPR Jatim (Perseroda) Gresik Branch.

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The analysis results show that the Customer Satisfaction variable at Bank BPR Jatim (Perseroda) Gresik Branch has a positive effect on customer loyalty, but this effect is not statistically significant (p-value = 0.072 > 0.05). This indicates that increasing customer satisfaction has not been able to consistently drive customer loyalty. This finding aligns with Expectation Confirmation Theory (Oliver, 1980), which states that loyalty will only develop if satisfaction is sustained and accompanied by other supporting factors such as trust and consistent experiences.

Based on these results, Bank BPR Jatim (Perseroda) Gresik Branch needs to develop a long-term strategy that focuses not only on immediate gratification but also on creating emotional bonds and trust. Approaches such as building personal relationships with customers at Bank BPR Jatim (Perseroda) Gresik Branch and designing loyalty programs that offer exclusive benefits are considered effective in increasing loyalty. This strategy has been successfully adopted by several global banks, as reported in a study by McKinsey & Company (2021), which emphasized the importance of personalization and consistent experiences in retaining long-term customers.

H6 : The Effect of Bank Interest Rates on Customer Loyalty through Customer Satisfaction

Bank interest rates have a direct and significant impact on customer loyalty, as indicated by a p-value of 0.000, which is less than 0.05. This means that rather than relying on customer satisfaction at Bank BPR Jatim (Perseroda) Gresik Branch to acquire loyal customers, customer satisfaction with bank interest rates alone will automatically lead to customer loyalty, leading to referrals to relatives.

The analysis shows that bank interest rates at Bank BPR Jatim (Perseroda) Gresik Branch do not significantly influence customer satisfaction, while bank interest rates do significantly influence customer loyalty at Bank BPR Jatim (Perseroda) Gresik Branch. This finding indicates that setting competitive interest rates plays a role in increasing loyalty, although it does not directly impact customer satisfaction. This suggests that changes in interest rates have not yet had a strong enough impact on directly shaping customer satisfaction perceptions, and therefore, satisfaction has not consistently driven customer loyalty at Bank BPR Jatim (Perseroda) Gresik Branch.

H7 : The Effect of Product Quality on Customer Loyalty through Customer Satisfaction

Product quality does influence customer satisfaction but does not impact customer loyalty. This is supported by the insignificant direct relationship between customer satisfaction and loyalty, as indicated by a p-value of 0.543, which is greater than 0.05. This is indicated by the presence of customers who purchase more than one product, although this is limited by their ability to pay.

The analysis shows that product quality has a significant effect on customer satisfaction, while the variable Product Quality has no significant effect on customer loyalty. This indicates that although product quality at Bank BPR Jatim (Perseroda) Gresik Branch is an important element in attracting customers, its presence alone is not sufficient to build strong loyalty. This means that the better the products offered by the bank, the higher the level of customer satisfaction at Bank BPR Jatim (Perseroda) Gresik Branch.

5. Conclusions

Based on the analysis of the influence of Bank Interest Rates and Product Quality on Customer Loyalty, with Customer Satisfaction as a mediating variable for loan customers at Bank BPR Jatim (Perseroda) Gresik Branch, the following conclusions were obtained:

1. Bank Interest Rates have no significant effect on Customer Satisfaction. It can be concluded that changes in interest rates are not strong enough to shape customer satisfaction perceptions at Bank BPR Jatim (Perseroda) Gresik Branch. This indicates that interest rates are not the sole consideration in assessing satisfaction, as customers tend to consider other factors such as transparency and trust in the institution.
2. Product Quality has a significant effect on Customer Satisfaction. It can be concluded that the higher the quality of banking products, the greater the level of customer satisfaction. Innovation, ease of access, and product features relevant to needs are key to increasing loan customer satisfaction at Bank BPR Jatim (Perseroda) Gresik Branch.
3. Bank Interest Rates have a significant effect on Customer Loyalty, but are not mediated by Customer Satisfaction. It can be concluded that competitive interest rates can directly influence customer loyalty without affecting satisfaction. Customers of Bank BPR Jatim (Perseroda) Gresik Branch tend to be loyal to banks that offer interest rates

they perceive as favorable, although they may not necessarily be completely satisfied.

4. Product quality has no significant effect on customer loyalty, either directly or indirectly through customer satisfaction. It can be concluded that loyalty is not formed solely by good product quality, but requires support from other aspects such as service and customer trust in the financial institution, namely Bank BPR Jatim (Perseroda) Gresik Branch.
5. Customer satisfaction has no significant effect on customer loyalty. It can be concluded that even if customers are satisfied, this does not guarantee loyalty. Customer loyalty at Bank BPR Jatim (Perseroda) Gresik Branch requires repeated and ongoing satisfaction, as well as a deep emotional bond and trust.
6. Customer satisfaction does not significantly mediate the effect of bank interest rates on customer loyalty at Bank BPR Jatim (Perseroda) Gresik Branch. Therefore, it is necessary to focus solely on the bank interest rate variable in acquiring loyal customers.
7. Customer Satisfaction is also not able to significantly mediate Product Quality towards Customer Loyalty of Bank BPR Jatim (Perseroda) Gresik Branch, because Product Quality directly influences Customer Satisfaction of Bank BPR Jatim (Perseroda) Gresik Branch but does not make the customer loyal.

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