

**FACTORS AFFECTING LOAN PERFORMANCE IN FINANCIAL  
INSTITUTIONS: A CASE STUDY OF CRDB PLC IN MWANZA  
REGION**

**FACTORS AFFECTING LOAN PERFORMANCE IN FINANCIAL  
INSTITUTIONS: A CASE STUDY OF CRDB PLC IN MWANZA  
REGION**

**By  
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**A Research Report Submitted for the Partial Fulfillment of the Requirements for  
the Award of the Masters of Science in Accounting and Finance at  
Mzumbe University**

**2014**

**CERTIFICATION**

We, the undersigned, certify that we have read and hereby recommend for the acceptance by the Mzumbe University a dissertation titled “*Factors affecting loan performance: A Case study of CRDB Bank Plc in Mwanza Region*” in partial fulfillment of the requirements for degree of Master of Science in Accounting and Finance (MSc A&F).

**Signature**

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**Major Supervisor**

**Signature**

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**Internal Examiner**

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**External Examiner**

**Accepted by the Board of .....**

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I, **Happy Gilbert**, declare that this dissertation is my own original work and that it has not been presented and will not be presented to any other university for a similar or any other degree award.

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## **ACKNOWLEDGEMENT**

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To the Almighty and merciful God, I am most grateful for his continuous guidance, protection and immense blessings throughout my academic career.

## **DEDICATION**

I dedicate this research to my family who have been supportive to me economically and especially in funding my education all through. Their support and care have given me a positive attitude and transformation in life and may God bless and be with them forever.

## **LIST OF ABBREVIATIONS**

<b>CRDB</b>	-	Cooperative Rural Development Bank
<b>PLC</b>	-	Public Limited Company
<b>FIs</b>	-	Financial Institutions
<b>MFI</b>	-	Micro Financial Institutions
<b>SME</b>	-	Small and Medium Enterprises

## **ABSTRACT**

The research was carried out to study the factors affecting loan performance in financial institutions in Tanzania, specifically, the researcher sought to establish the effects of collection policy, credit terms, client appraisal and credit risk. A case study of CRDB bank in Mwanza region.

This study used data collected from both primary and secondary data source. The methods of data collection used were interview, observation, questionnaires, and documentary review that were used to analyze data from purposive and simple random sampling of 30 sample sizes. The interpretation of data collected was analyzed by using a computer program known as program of Statistical Package for Social Sciences (SPSS). The main variables taken into consideration were credit terms, collection policy, client appraisal and credit terms.

The researcher adopted qualitative and quantitative research designs. The respondents were the CRDB bank staff and the bank borrowers of Mwanza region. Collection policy and credit terms were found to have a high statistical significance with loan performance of a financial institution. Further research is recommended on the effects of customer training in loan performance, assessment of the effects of economic downturn in loan performance, and other factors that affects loan performance in financial institutions such as political consideration, environmental and prevailing economic changes.



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## **CHAPTER ONE**

### **1.0 INTRODUCTION**

This chapter explains the research on the topic concerning the factors affecting loan performance in financial institutions in Tanzania. The chapter comprises of the background of the problem, statement of the problem, objectives of the study, research questions and significance of the study.

### **1.1 Background of the problem**

Financial Institutions in Tanzania are affected by various factors in loan performing in order to meet their objectives. The major purpose of this study was to assess the factors affecting loan performance in Financial Institutions, in particular CRDB Plc of Mwanza Region. Significantly, the study considered the effects of credit terms, client appraisal, credit risk, and collection policy on how they affect the loan performance in CRDB Plc of Mwanza.

It was observed that in 1990s loans given to customers did not work out well and went for an intervention. Evaluation of customer's ability to repay applied loan, were made but this didn't work as loan defaults continued (Modurch, 1999). In addition to that, the concept of credit management became widely appreciated by financial institutions in the late 1990s, but again this did not stop loan defaults (Modurch, 1999). But the most difficulty faced by financial institutions for many years was banking problems which are directly related to accepting poor credit standards from borrowers and counterparties, low portfolio risk management, or lack of attention to changes in economic or other circumstances that can lead to deterioration in the credit standing of a bank's counterparties. (Gil Diaz, 1994)

Traditionally, the role of a bank is lending and loans make up the bulk of their assets. In unstable economic environments, interest rates charged by banks are fast overtaken by inflation and borrowers find it difficult to repay loans as real income fall, insider loans increase and overconcentration in certain portfolios increases giving rise to credit risk (Gil Diaz, 1994). This situation causes financial institutions to experience non-performing loans in their asset portfolio.

Since the review of loan performance management is so important, it is primary a supervisory activity in Financial Institutions. Assessing credit management on loan performance involves evaluating the steps bank management takes to identify and control risk through the credit process. In most cases, the assessment focuses on factors affecting loan performance in particular Financial Institution. This research study will be conducted for the benefit of scholars, examiners and banks as will emphasize on the key factors that affects the management of loan performance in CRDB Plc Ltd. This includes determining whether the risk associated with the bank's lending activities are accurately identified and appropriately communicated to responsible persons or body then appropriate corrective action is taken immediately.

## **1.2 Statement of the problem**

Loan is the principle business activity for most commercial banks and other financial institutions. In most financial institutions loan collection is the largest asset and the predominant source of revenue. As such, it is one of the greatest sources of risk to bank's safety and soundness. Whether due to careless setting of credit standards, poor selection of risk management, or weakness in the economy, loan portfolio problems have historically been the major cause of bank losses and failures. Effective management of the loan portfolio and the credit function is the fundamental to bank's safety and soundness. (Comptroller's Handbook, 1998)



Any financial institution should rather depend on loan recovery to have sustainable financial position, in this regard, so that they can meet their objective of alleviating poverty and enhance economic development; CRDB bank not being an exception. Ogilo. (2012) identified that Loan performance in financial institution may be affected by both internal and external factors. Various empirical studies linked with loan performances in relation to external and internal factors have been performed (Walter and Lilian, 2013). Marcellina., (2000) explained that Loan performance in financial institutions is mostly affected by internal factors like corruption, non use of prudent classification and risk assessment method and management deficiencies whereas external factors are influenced by deregulation, lack of information among financial institutions, government and political interference. In the study of Political Interventions and Between Bank Failure in Pre-Liberalized Tanzania, Marcellina, (2000) found that external factors have large contribution in Loan performance in financial institutions. According to Walter and Lilian, (2013) government and political interference have more impact in performance of financial institution.

Absence of empirical studies on the other factors that affects loan performance in financial institution is the principle motivation behind this study which sought to find out the effects of collection policy, credit terms, client appraisal and credit risk on loan performance.

### **1.3 Objectives of the study**

#### **1.3.1 General objective**

An overall objective of this study was assessment of the factors affecting loan performance in Financial Institutions in Tanzania.

#### **1.3.2 Specific objectives**

- a) To assess the effectiveness of collection policy adopted by CRDB bank on their loan performance.
- b) To establish the effect of credit terms of CRDB bank on their loan performance.

- c) To identify and examine the effects of client appraisal on loan performance at CRDB plc..
- d) To examine the effects of credit risk on loan performance at CRDB plc.

#### **1.4 Research questions**

The research question of this study were

- a) What are the collection policies adopted by CRDB bank that affects its loan performance?
- b) What are the effects of credit terms at CRDB Bank on their loan performance?
- c) How does client appraisal affects loan performance at CRDB bank?
- d) What are the effects of credit risk on loan performance?

#### **1.5 Significance of the study**

The study intends to widen an understanding of the factors that affect loan performance in financial institutions in Tanzania. The accomplishment of the research will be of importance to the banking sector and community through:

- a) The findings of the study will enable various financial institutions in Tanzania to identify the major factors affecting loan performance, and the possible solutions to eliminate them.
- b) To assist the credit management department on how to manage loan portfolios to avoid loan defaults in their institutions.
- c) The study will enable the borrowers to understand various factors that can cause them to fail to meet the payment period of the loan that they owe so as to find ways to overcome them.
- d) The study will enable the researcher to expand knowledge on the various issues that affect the loan performance in Tanzania.

## **1.6 Limitation of the study**

In the process of conducting the research, these were some of the obstacles that the researcher encountered. And these are

- a) The arrangement of interview and collection of questionnaires required adequate resources such as time and finance, the researcher was sponsoring herself.
- b) Minimum cooperation from the credit department staff that was busy with their daily responsibility and the researcher was not employed at that institution.
- c) Minimum support from bank borrowers who thought that the researcher was spying on their business.

## **1.7 Delimitation of the study**

The researcher considered the following to overcome the obstacles stated above

- a) The study focused on the findings that was collected from CRDB plc of Mwanza region, basing on the questionnaires, interview and literature review.
- b) Well introduction of questionnaires to the respondents with questions that were easily understood and that ensured the respondents that the responses were treated confidentially and it was for academic purpose.

## **1.8 Organization of the report**

The report was organized into six chapters. Chapter one gives the background information and provides the statement of the problem, objective of the study, research questions, significance of the study, limitation and delimitation of the study. Chapter two provides review of the literature on the related topic under study. Chapter three outline methodology and tools employed in this study. Chapter four provides data analysis and presentation. Discussion of the findings was presented on chapter five. And lastly chapter five give the summary, conclusion and recommendations.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 INTRODUCTION**

The loans can be quite profitable prior to any specific defaults and allows financial institutions to build up its reserves against potential bad credits and problems may not be severe (Kurt, 2009). Ogilo, (2012) identified that Loan performance in financial institution may be affected by both internal and external factors. Various empirical studies linked with loan performances in relation to external and internal factors have been performed (Walter and Lilian, 2013). Marcellina, (2000) explained that Loan performance in financial institutions is mostly affected by internal factors like corruption, non use of prudent classification and risk assessment method and management deficiencies whereas external factors are influenced by deregulation, lack of information among financial institutions, government and political interference. In the study of Political Interventions and Between Bank Failure in Pre-Liberalized Tanzania, Marcellina, (2000) found that external factors have large contribution in Loan performance in financial institutions. According to Walter and Lilian, (2013), government and political interference have more impact in performance of financial institution.

It has been noted that the major aim of financial institutions to provide loan is to increase income to investor households and improve livelihood (Walter and Lilian, 2013). In the study of Factors Influencing Loan Repayment Default in Micro-Finance Institutions: The Experience of Imenti North District, Kenya, Munene and Guyo (2013) found that most borrowers use micro credit finances on food, shelter and clothing to meet their basic needs rather than investment. They noted that as the time of loan disbursal, the poor borrowers are pre-occupied with pressing economic problems ranging from shortage of food, lack of seeds for planting and paying medical bills among others, a practice which makes micro finances repayment difficulty. Furthermore

they concluded that Loan repayment problem has been a tragedy leads to a system failure to implement appropriate lending strategies and credible credit policies but in actual fact loan is profitable as earlier described above.

In the study of the Role and Effect of Microfinance Institutions' loan on innovativeness in Micro and small enterprises': The Case of Women's Micro and Small Enterprises in Dar Es Salaam, Lanta, (2012) indicates that interest rates charged by financial Institution on loans were very high considering social and the economic conditions of a particular region and the Tanzania as a whole. He reasons out that it is difficult to put this loan into productive activity like innovation activities due to the fact that innovation investments take time to mature and for them to earn enough income on the loan, to enable them service the loan. As explained earlier that the major purpose of providing loan in financial institutions is gain profit. Rozga and Kundid, (2013) maintained that key features of financial institution profitability levels are set up in the form of two categorical variables, profit recorded above or below average return on equity.

In accordance with Financial Sector Assessment in Tanzania (2003), growth of loans and growth of assets may positively relate to financial institution profitability; however indicator of loan loss provisions has a negative impact on bank profitability set out in form existence or absence of profitability, which is not surprising if an income statement structure is on mind. On the other hand, a positive impact of the latter indicator on Return on average equity might be a proof of a gradual provisioning for non-performing loans by the above average profitable banks (E. W. Chirwa 2003). In the previous studies Samuel and Moorine (2004), Lanta (2012,) reviewed literatures applied and identified gaps concerning with the innovation aspect and the role of micro credit loans on Financial Institution in Tanzania.

## **2.1 CREDIT TERMS**

One of most important issue of loan performance in financial institution is credit term which specifies the credit period and interest rates. Credit period referrers to the

maximum time allowed for repayment of loan (Walter and Lilian, 2013). According to Derban et al (2005), repayment loan may be categorized into characteristics of the borrower and their business and loan product to the borrower which make the loan be repaid and risk from the as political and business environment in which the borrower operates. Ross and Jordan (2008), indicated that the length of the credit period is influenced by the size of the account, credit risk, market competition and collateral size.

In the research study of determinants of repayment performance in microcredit program Norhaziah and Mohd, (2010) examined that repayment of loan is one of the critical issues of Financial Institutions that concerns all stakeholders. They point out that the high loan default rate is the primary cause of the failure of Financial Institutions and the lenders can only observe the outcome of their loans either the clients repay or not. Walter and Lilian, (2013) identified that some of borrowers did not use the loans they received from the of Financial Institutions for the intended and agreed purposes like diversions were the reason why they were unable to keep up to date in their repayments. Derban et al 2005 expressed that the main activity of the bank management is not deposit mobilization and giving credit but also credit risk management reduces the risk of customers default. Furthermore he explained that the competitive advantage of a bank is dependent on its capability to handle credit valuably and bad loan may cause failure in financial institution.

According to Marrison (2002) failure of financial institution is mostly due to wrong appraisal of credit status or the repayment of non-performing loans and excess focus on giving loans to certain customers. Interest rates play important role on loan performance in financial institution. Michael, (1992) defined interest rates as the amount that the borrower must pay to the lenders over and above the total borrowed expressed as the percentage of the total amount of the funds borrowed. Interest rates have a direct effect on the performance of a bank. Thordon and Nathan (1999) explain that when interest rates are low people are willing to borrow because they find it relatively easy to repay

their loan. When interest rates are high people are reluctant to borrow because payment on loans becomes cost more. Some consumers may even find it difficult to meet their existing loans repayments especially if interest rate increases faster than the rate of the consumers' income. If interest rates stay high for a long period of time, some clients or borrowers will default their loans.

## **2.2 CREDIT RISK**

The most essential part of loan performance in financial institution is credit risk management. In relation to Financial Sector Assessment in Tanzania (2003) credit risk refers to the risk that a borrower may default on debt by failing to make required payments leading to loss of principal and interest, disruption to cash flows and increased collection cost. Ogilo, (2012) recognized credit risk as the most expensive risk in financial institutions as its effect is more significant as compared to other risk. He further explained that the magnitude and level of loss caused by the credit risk as compared to other kind of risks is severe to cause high level of loan losses and even bank failure.

As indicated by Awoke, (2004) that most of the default arose from poor management procedures, loan diversion and willingness to repay loans, this may lead the lenders to devise institutional mechanisms that aimed to reduce the risk of loan defaults. Regarding to Ogilo, (2012) credit risk management should be at the centre of financial institutions operations in order to maintain financial sustainability. Despite these facts there has been increased number of significant bank problems as well as emerging economies (Ogilo, 2012). As indicated in Financial Sector Assessment in Tanzania, (2003) that major cause of serious banking problems is related to accepting credit standards for borrowers and counterparties, poor portfolio risk management, or a lack of attention to changes in economic or other circumstances that can lead to a deterioration in the credit standing of a bank's counterparties.

### **2.3 COLLECTION POLICY AND CLIENT APPRAISAL**

In various Financial Institutions, policies are placed to ensure that credit management is done effectively. In accordance with Kariuki, (2010) policies are made to ensure that clients settle the firm bills on time. He further explains that most of clients are slow payers while some are non-payers as a result producing bad debt or losses. Douglas, (2010) explains that the collection policy should outline point collections, at what point a letter should be sent to demand payment. As stated by Nawicki, (2001) the policy should outline at what circumstance the financial institution writes off accounts as bad debts.

The willingness of lenders to extend credit depends on their assessment of client's creditworthiness. In relation to Gitman and Joehnk, (2008) the ability of client to promptly repay the debt can be observed in various factors in order to makes decision, such as the client's present earnings and net worth at the client's current debt position and client's credit history. Linda et al, (2004) explained that credit as a way to assess the willingness and ability of the borrower to repay loan and defined key factor in defining the borrower's willingness to live up to the term of the loan.



## **2.4 EMPIRICAL REVIEWED LITERATURE**

Several researches related to factors affecting loan performance in financial institutions has been done in various places. In Kenya Ogilo Fredrick 2012 did The Impact of Credit Risk Management on Financial Performance of Commercial Banks in Kenya. He found that management efficiency and liquidity had weak relationship with financial performance whereas earnings had a strong relationship with financial performance. Moreover, in the study of the Role and Effect of Microfinance Institutions' loan on innovativeness in Micro and small enterprises done by Lanta Daniel Diyamett 2012 in Dar es salaam Tanzania showed that financial institutions should also keep their operational cost low as this negates their profits margin thus leading to low financial performance and Commercial banks should also check their credit policy and practices which reduce loss on non-performing loans which raises their expenses and consequent reduction in financial performance.

Rozga Ante and Kundid Ana 2013 did the study of Determinants analysis of bank profitability levels in Croatia. They noted that Bank profitability is set up in the form of profit or loss recorded. In Malawi, E. W. Chirwa 2003 performed a study of Determinants of commercial banks' profitability in order to investigate the relationship between market structure and profitability of commercial banks in Malawi. He found that a positive relationship between commercial bank profits and concentration was possible facilitated by the existing interlocking ownership structure. A positive relationship is also found between profitability and the loan-asset ratio.

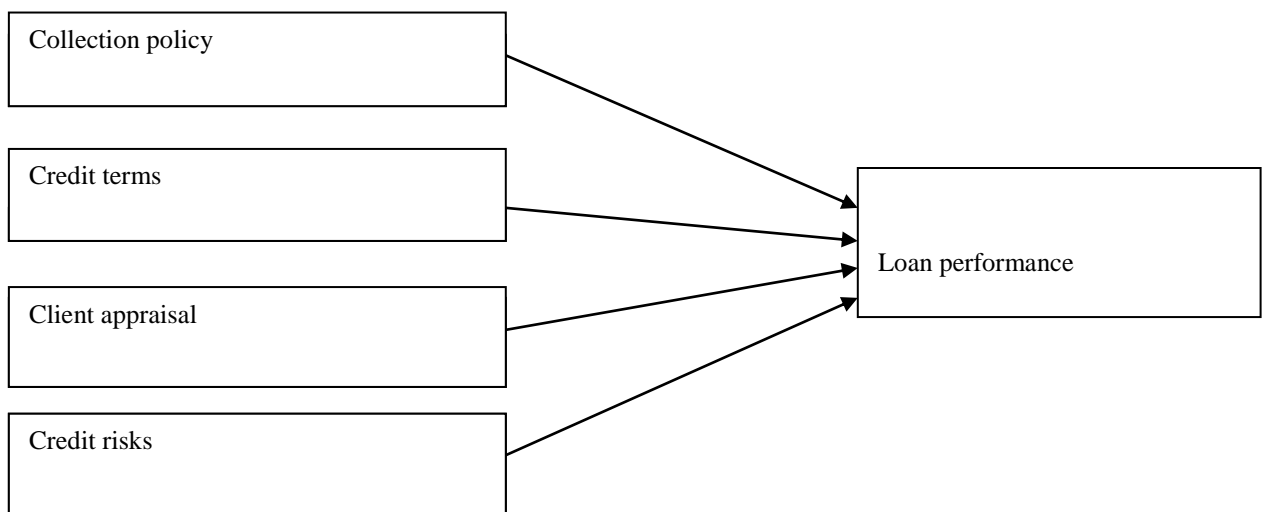
Mukama et al 2005 carried out the empirical study of Problems Affecting the Growth of Microfinance Institution in Tanzania. They found that the most important factors that affect Financial Institution in Tanzania include the educational levels of clients, lack of capital to lend to clients, lack sufficient access to loan capital and staff related incentives and skills development. The study of Financial Sector Assessment in Tanzania carried in 2003 also assesses the effect of performance of gross loan portfolio/assets in micro-

finance institutions and indicated specific objectives are to establish the effect of group and individual lending on performance of loan portfolio in Micro-finance institutions, and to establish the effect of moderating factors on performance of gross loan portfolio.

## 2.5 CONCEPTUAL FRAMEWORK

This study will focus on different variables that will be used in empirical study of investigating and understand the affect of these variables on loan performance in CRDB Plc in Mwanza branch. As seen in the conceptualization of the study variables and conceptual framework in fig.1 below.

**Figure 2.1 Conceptual framework**



**Source:** Researchers source, 2014

The diagrammatic representation of conceptual framework shows how the variables are related. Collection policy, credit terms, credit risks, and client appraisal are independent variables but loan performance is a dependent variable, which depends on the occurrence of the independent variables.

Five point-likert scales on the variables under study ranging from strongly disagree as response 1 to strongly agree as response 5 was developed. Collection policy was measured by using items employees training, credit policy that emphasize on extending loan, policy on size of the loan, policy of providing loan according to credibility, collection policy and decision made by management.

Credit terms was measured by using items interest rate charged, managerial decision process, loan repayment and collection of credit from creditors. Client appraisal was measured by using items collateral attachment and loan appraisal report. Credit risk was measured by using items loan monitoring and continuous loan appraisal system.

Loan performance was measured by using items institution profitability, interest profitability and principal repayment profitability.

## **2.6 VARIABLES INTERCONNECTIVITY**

Collection policy is needed because all customers do not pay their firm bills on time. The collection should therefore aim at accelerating collections from slow payers and hence reducing bad debts losses. Collection policy has an effect on loan performance as it stipulates clear-cut collection procedures and hence dissuades conflicts arising from loan repayment periods, amount and loan structure.

Credit terms refer to the conditions under which financial institutions extends credit to its clients. It specifies the credit period and interest rate. If a financial institution decides to extend credit to a client, this will therefore have an effect on loan performance of a financial institution, since it specifies the time of loan repayment and the interest to be paid, hence creating timely repayment and decreasing in default rate.

Client appraisal helps the financial institutions to improve loan performance as they get the chance to understand their customers/clients better before extending credit to them. Credit risk is an investor's risk of loss arising from a borrower who does not make

payments as agreed. It has an effect on timely repayments and decrease in loan default rates.

## 2.7 HYPOTHESES

The following hypotheses were developed for empirical testing:

H04: There is no significant relationship between collection policies and loan performance of financial institutions.

H01: There is no significant relationship between credit terms and loan performance of microfinance institutions.

H02: There is no significant relationship between client appraisal and loan performance of financial institutions.

H03: There is no significant relationship between the credit risk and loan performance of financial institutions.

The hypothesis was to test the relationship between the dependent and independent variables. Regression analysis, Pearson correlation, frequencies, percentages and graphs were used to test the hypothesis.

Regression equation of variables under study

$$y = \alpha + \beta_1 ET + \beta_2 CE + \beta_3 PS + \beta_4 PL + \beta_5 CP + \beta_6 DM + \Sigma \quad (1)$$

Where,

$y$  = value of the dependent variable

$\alpha$  = constant

$\beta$  = beta coefficients of the independent variables

$\Sigma$  = the error term

LP= Loan interest profitability on loan performance

ET= Employees training

CE= Credit policy emphasizes on extending loan.

PS= Policy on size of the loan

PL= Policy of providing small loan according to credibility

CP= Collection policy

The test on the relationship between loan interest profitability on loan performance is conducted based on the statistical significance of the independent variables. A positive coefficient of the independent variable would suggest that, such variable improves or increases the loan performance of a financial institution, while a negative coefficient would suggest that such variables weakens or decreases loan performance.

$$y = \alpha + \beta_1 IR + \beta_2 MP + \beta_3 LR + \beta_4 CC + \Sigma \quad (2)$$

Where,

IP-Institution profitability on loan performance

IR- Interest rate charged

MP- Managerial decision process

LR- Loan repayment by the customer

CC- Collection of credit from creditors

The test on the relationship between institution profitability on loan performance is conducted based on the statistical significance of the independent variables. A positive beta coefficient of the independent variables would suggest that, such variables improve the loan performance, and if it's negative it weakens it.

$$y = \alpha + \beta_1 AL + \beta_2 LAR + \Sigma \quad (3)$$

Where,

AR- ability to repay the current loan

AL- amount of loan

LAR- loan application and repayment supervision

Ability to repay the current loan is tested based on the statistical significance of the independent variables. A positive coefficient in study of the independent variables would imply that such variable improve loan performance, and when such variable is negative, it implies that variable weakens loan performance.

## **CHAPTER THREE**

### **DATA AND RESEARCH METHODOLOGY**

#### **3.0 INTRODUCTION**

This chapter explains the methods that were used during the study to collect, analyze and interpret the data collected. It presents the research design, area of the study, study population, sampling method, and data source, methods of data collection and instruments, and data analysis.

#### **3.1 RESEARCH DESIGN**

A research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data (Kothari, 2004). The research design is categorized into different types depending on the nature of the study; it includes case study design, experimental design and survey design. This study was carried out by using case study design being a non experimental, as it aids the collection of both qualitative and quantitative data.

#### **3.2 AREA OF THE STUDY**

The research was conducted at Mwanza region using CRDB plc as a case study. The study dealt with the credit department of the bank, the staff members that are responsible for loan portfolio management and also from the bank borrowers. The area was selected by the researcher due to the reason that, the researcher lives in Mwanza region and it was easy to collect data and minimize the cost.

#### **3.3 STUDY POPULATION**

The study was carried out in CRDB Plc, at Mwanza region, covering its staff with concern to loan and the bank customers. The population selection based on the fact that, the study variables were of specific concern and direct for personnel responsible for loan and loan portfolio management as well as the borrowers.

### 3.4 SAMPLING PROCEDURES AND SAMPLE SIZE

#### 3.4.1 Sample size

The study involved 42 populations who were directly related to lending activities. This involves the working staff of the bank which was a financial institution and the clients of the bank who are the borrowers. These were treated as sample unit out of which a sample size of 30 people was drawn from a total number of 42 populations.

**Table 3.1: Population sample**

Unit of inquiry	Population	Sample size
Working staff (bank)	12	10
Borrowers	30	20
<b>Total</b>	<b>42</b>	<b>30</b>

**Source:** researcher's selection (2014)

In order to minimize error, the sample size was obtained as follows

$$n = \frac{NC^2}{C^2 + (N-1)e^2}$$

Where:

- n = Sample size
- N = Population (42)
- C = Coefficient of variation (10%)
- e = Sampling error (1%)

Hence

$$n = \frac{(42)(10\%)^2}{(10\%)^2 + (42-1)(1\%)^2}$$
$$n = 29.787 = 30$$



### 3.4.2 Sampling techniques

The sampling technique used was simple random sampling. This technique was used in selecting the targeted population. It was used in selecting the credit department staff (loan officers) and borrowers of the financial institution.

The sample size was selected due to the following reasons:

- i) Credit department staff (loan officers), these were the key players that were selected due to the reason that, they were responsible for granting credit to the borrowers.
- ii) Credit manager was selected due to the fact that, he was responsible to authorize the applied loans and supervise its repayment.
- iii) Other staff, these were selected because in one way or the other they are familiar with the daily operations of the bank.
- iv) Borrowers were selected due to the reason that, they were responsible for taking and using the loan and also in determining the factors that affect them in repaying the loan.

## **3.5 METHODS OF DATA COLLECTION**

Primary and secondary data were incorporated in the study where by the structured interview, questionnaires and documentary sources were used as the methods of data collection.

### **3.5.1 PRIMARY DATA**

These are data which are collected afresh and for the first time, and thus happen to be original in character (Kothari, 2004). This was conducted by selecting a number of staff and borrowers that gave reliable information for the research. Primary data was collected by using questionnaires and interview guides.

### **3.5.1.1 Interview method**

The interview method was used to collect data from credit officers in the loan department of the bank and the borrowers. The researcher conducted the presentation of oral verb questions and got reply in terms of oral verb response. The interview consulted different experienced credit staff, seeking from them direct responses that were relevant to the problem under study. The interview of the bank staff was conducted in their respective work place.

### **3.5.1.2 Observation method**

This included looking for personnel conducts towards their assigned duties. The researcher observed how the loan officer and borrower, operated in collecting and repayment of loans. The researcher used non participatory observation, as she was not part of the group under observation.

### **3.5.1.3 Questionnaire method**

This is a research instrument that gathers data over a large sample. This method was used to supplement interview method where by one can be reluctant on giving opinion on the case under study. Under this method, the researcher used structured open and closed ended questions to collect the data. This gave more freedom to the respondents to express themselves without fear because it was done independently and secretly (Kothari, 2004).

This method was important to the researcher because it was simple to administer and relatively inexpensive. The method was free from bias because the respondents responded by using their own words and also it's easy to make future reference when needed.

### **3.5.2 SECONDARY DATA**

Are those data which have already been collected by someone else and which have already been passed through the statistical process.(Kothari, 2004)

### **3.5.2.1 Documentary review**

Documentary data was used to obtain relevant information on the problem under study. These data were obtained from reliable sources, books, magazines, journals, articles and various research papers that have been conducted by previous researchers that relate to this study. The researcher got the chance to pass through annual financial reports and several journals of CRDB Bank Plc which provided the researcher clear picture of the matter under study in relation to loan performance.

## **3.6 DATA ANALYSIS**

This was the process of making meaningful the unorganized and collected data from the field. Qualitative and quantitative techniques were used to analyze and manage the data. These analyses involved the comparison of the data collected and subjective reasoning. Data analysis also involved the use of relevant statistics such as percentages, frequency tables, regressions and correlations in order to come up with concrete findings and suggestions was based on a computer programmed known as package for social scientists (SPSS). Results were discussed in the next chapter.

## **CHAPTER FOUR**

### **DATA PRESENTATION**

#### **4.0 INTRODUCTION**

This chapter presents findings of the study which focused on the factors affecting loan performance in financial institutions in Tanzania, a case study of CRDB bank plc in Mwanza Region. Questionnaires and interview guide were used to collect data from CRDB working staff and bank customers (borrowers). Questionnaires were circulated to some of the borrowers, and data was collected from the CRDB working staff by using both questionnaires and interview method. The presentation and discussion of the findings were done based on the four research objectives.

#### **4.1 GENERAL BACKGROUND OF RESPONDENTS**

A total sample of 30 respondents were collected for analysis, out of which 10 respondents were the working staff of CRDB bank and the rest of 20 respondents were the bank customers who have loans. All these customers are located in Mwanza Region where they engage themselves in various activities such as business, agriculture, fishing and manufacturing.

##### **4.1.1 CHARACTERISTICS OF RESPONDENTS**

The sample characteristics of respondents were presented in terms of gender, age, position of respondents and level of education. The table below shows the respondents' gender.

**Table 4.1: respondents' gender (borrowers)**

<b>Gender</b>	<b>Frequency</b>	<b>Percentage</b>
Female	8	40
Male	12	60
<b>Total</b>	<b>20</b>	<b>100</b>

**Source:** Primary source, (2014)

The characteristics of gender as seen in table 4.1 above, the data shows that, the respondents were Male 60% and Female 40%. This implies that majority of Men have access to CRDB bank's credit than Female. From the researcher's observation during the study, many women are engaged in small business and have more access to micro financial institutions such as SACCOS.

**Table 4.2: respondents' age (borrowers)**

Age interval	Frequency	Percent
18-23	2	10
23-29	8	40
30-35	4	20
Above 35	6	30
<b>Total</b>	<b>20</b>	<b>100.0</b>

**Source:** Primary source, (2014)

Table 4.2 above represents respondents' distribution by age. According to the table 4.2 above, out of the 20 respondents in the sample, only 10% of the respondents were between 18-23years of age, 40% were between 23-29 years, 20% were aged between 30-35 years and the other 30% were aged above 35 years. Majority of the respondents were aged above 23 years and below 29 years. This was followed by the respondents who aged above 35 of age. They were found to engage themselves in various activities and they had access to the bank's credit. It is believed that older people have much experience in their business and they know their responsibilities other than young and inexperienced customers.

**Table 4.3: respondents' position (bank staff)**

Position	Frequency	Percent
Middle level management	6	60.0
Loan officers	4	40.0
<b>Total</b>	<b>10</b>	<b>100.0</b>

**Source:** primary data, (2014)

The results of Table 4.3 above shows that, from the questionnaires that were distributed among the working staff of CRDB bank, 60% of the responses were from the middle level management and the rest of the 40% were loan officers. This showed that the respondents were familiar with the organization and their responses can be relied on this study.

**Table 4.4: respondents’ level of education (borrowers)**

<b>Education level</b>	<b>Frequency</b>	<b>Percent</b>
Primary level	6	30.0
Secondary level	6	30.0
University level	8	40.0
<b>Total</b>	<b>20</b>	<b>100.0</b>

**Source:** Primary data

The data that were analyzed about the level of education of the bank borrowers were presented in the table 4.4 above. The data showed that all borrowers were literate at different levels of education. 40% were educated up to university level and the rest were educated up to primary and secondary level. Analyzing the borrowers’ education level was important for this study as it helped the researcher to know the level of their understanding of various documents when they apply for a loan and to be sure they understand them well before signing the papers.

## **4.2 FACTORS AFFECTING LOAN PERFORMANCE**

### **Correlation analysis**

Correlation analysis was conducted to establish the degree of relationship on the variables intended for this study as indicated in table 4.5 below. The variables were loan interest profitability on loan performance as dependent variable and independent variables were employee training, credit policy emphasize on extending loan, policy on the size of the loan, policy of providing small loan according to credibility, collection policy and decision made by management. To ascertain the relationship of the variables, we first run the correlation analysis among the variable to find out the relationship that

exists between the dependent and independent variables as well as to establish if there is multicollinearity problem existing among variables.

**Table 4.5: Analysis of effects of collection policy on loan performance**

**Pearson correlations**

	<b>LP</b>	<b>ET</b>	<b>CE</b>	<b>PS</b>	<b>PL</b>	<b>CP</b>	<b>DM</b>
LP	1	0.612* (0.060)	-0.183 (0.613)	0.667** (0.035)	0.355 (0.111)	0.408 (0.242)	0.089 (0.807)
ET	0.612* (0.060)	1	-0.192 (0.595)	0.408 (0.242)	0.327 (0.356)	0.000 (1.000)	-0.218 (0.545)
CE	-0.183 (0.613)	-0.192 (0.595)	1	0.183 (0.613)	0.391 (0.264)	0.384 (0.273)	0.391 (0.264)
PS	0.667** (0.035)	0.408 (0.242)	0.183 (0.613)	1	0.356 (0.312)	0.000 (1.000)	-0.089 (0.807)
PL	0.535 (0.111)	0.327 (0.356)	0.391 (0.264)	0.356 (0.312)	1	0.655** (0.040)	0.524 (0.120)
CP	0.408 (0.242)	0.000 (1.000)	0.384 (0.273)	0.000 (1.000)	0.655** (0.040)	1	0.655** (0.040)
DM	0.089 (0.807)	-0.218 (0.545)	0.391 (0.264)	-0.089 (0.807)	0.524 (0.120)	0.655** (0.040)	1

NOTE:

\*\*Correlation is significant at the 0.05 level

\*Correlation is significant at the 0.10 level

From the correlation table 4.5 above, the analysis shows that all variables are correlated with loan performance either positively or negatively. The results shows that, loan interest profitability on loan performance is positively correlated with employee training, policy on size of the loan, policy of providing small loan according to credibility, collection policy and decision made by management but credit policy that emphasize on extending loan is negatively correlated with the dependent variable.

Furthermore the correlation coefficient demonstrate that, there is no high correlation among independent variable used in this analysis and this make us to understand that there was no multicollinearity problems exists among the variables. The study

conducted field (2005) hypothesize that multicollinearity is likely to be a problem in a data set if correlations coefficient predictors is greater than 0.90( $r > 0.90$ ).

### Regression analysis

Regression analysis was used to find the results of research objective 1, to assess the effectiveness of collection policy adopted by CRDB plc Ltd on their loan performance.

Regression analysis is used to predict statistical significance between variables. It measures the effect of relationship of the independent variable to dependent variable.

**Table 4.6: regression analysis of the effect o collection policy on loan performance**

#### Standardized coefficients

Model	Beta	t-test	Sig
Constant	-1.940	-1.297	0.285
ET	0.237	1.113	0.347
CE	-0.489	-2.494*	0.088
PS	0.639	3.225**	0.048
PL	0.005	0.197	0.857
CP	0.568	2.249	0.110
DM	-0.011	-0.046	0.966

Dependent variable: Loan interest profitability on loan performance

Result from the run of the linear regression with the set of loan interest profitability on loan performance included six independent variables, produced an R-squared value of 0.921 with approximately 92.1% of the variance in the dependent variable, loan interest profitability being explained. A number of variables included in the regression run were insignificant as to be excluded these are employees training, policy of providing small loan according to credibility, collection policy and decision made by management.

Also the result showed that, the coefficient of the policy on the size of the loan was statistically significant and confirm the expectation of hypothesis, with ( $P=0.048$ ,  $Beta=0.639$  and  $t\text{-value}=3.225$ ), it indicated that, the policy on the size of the loan that a financial institution grants to its customers has an impact on its loan interest profitability



on loan performance. Therefore, the study confirms the existence of statistically significant relationship between policy on the size of the loan and loan interest profitability on loan performance of the financial institution since the p-value was less than 0.05 significance level.

Credit policy emphasizes on extending loan was also found to have a statistical significant relationship with loan interest profitability on loan performance, as the p-value was less than 0.1 significance level. The results of the regression analysis were p-value=0.088, Beta=-0.489 and t-value=-2.494.

#### **4.3 EFFECT OF CREDIT TERMS ON LOAN PERFORMANCE**

##### Pearson correlation

Correlation analysis was conducted to establish the degree of relationship between variables in this study. The variables were institution profitability on loan performance as a dependent variable and the independent variables were interest charged, managerial decision process, loan repayment by customer and collection of credit from creditors. To ascertain the relationship of the variables, we first run the correlation analysis among the variable to find out if there is any relationship that exists between the dependent and independent variables as well as to establish if there is multicollinearity problem existing among the independent variables. Results are shown in table 4.7 below

**Table 4.7: Analysis of the effect of credit terms on loan performance**

**Pearson correlation**

	<b>IP</b>	<b>IR</b>	<b>MP</b>	<b>LR</b>	<b>CC</b>
<b>IP</b>	1	-0.011 (0.976)	-0.247 (0.492)	-0.631** (0.050)	-0.315 (0.375)
<b>IR</b>	-0.011 (0.976)	1	-0.039 (0.915)	0.204 (0.571)	-0.175 (0.629)
<b>MP</b>	-0.247 (0.492)	-0.039 (0.915)	1	0.764** (0.010)	0.000 (1.000)
<b>LR</b>	-0.631** (0.050)	0.204 (0.571)	0.764** (0.010)	1	0.000 (1.000)
<b>CC</b>	-0.315 (0.375)	-0.175 (0.629)	0.000 (1.000)	0.000 (1.000)	1

NOTE:

\*\* Correlation is significant at the 0.05 level

\*Correlation is significant at the 0.1 level

From the Pearson correlation table 4.7 above, the analysis shows that all the independent variables are negatively correlated with institution profitability on loan performance. This means the independent variables are negatively related with the dependent variables under study.

On the other hand, managerial decision process had a statistically significant relationship with loan repayment by customers (with R square of 0.583,  $p=0.010$ ,  $\beta=0.764$  and  $t=3.347$ ); it indicates that the management of the bank loan portfolio depends on the repayment rate of the customer. This is to whether which customer does not repay the loan, how much it affects the loan portfolio of the bank and what measures should be taken against that customer

Furthermore the correlation coefficient demonstrate that, there was no high correlation among independent variable used in this analysis and this make us to understand that there was no multicollinearity problems that existed among the variables. The study

conducted field (2005) hypothesize that multicollinearity is likely to be a problem in a data set if correlations coefficient predictors is greater than 0.90( $r > 0.90$ ).

Regression analysis

**Table 4.8 Regression analysis of the effects of credit terms on loan performance**

**Standardized coefficient**

<b>Model</b>	<b>Beta</b>	<b>t-test</b>	<b>Sig</b>
Constant		2.445	0.058
IR	0.207	0.733	0.497
MP	0.661	1.569	0.178
LR	-1.178	-2.737	0.041
CC	-0.279	-1.062	0.337

Dependent variable: Institution profitability on loan performance

Result from the run of the linear regression with the set of institutional profitability on loan performance included four independent variables, produced an R-squared value of 0.666 with approximately 66.6% of the variance in the dependent variable, institutional profitability being explained. A number of variable included in the regression run were insignificant as to be excluded these are interest charged, managerial decision process, and collection of credit from creditors.

Also the result showed that, the coefficient of the loan repayment by customer was statistically significant and confirm the expectation of hypothesis, with ( $P=0.041$ ,  $Beta=-1.178$  and  $t\text{-value}=-2.737$ ), it indicated that, loan repayment by the customer had a negative effect on institutional profitability on loan performance of a bank. Therefore, the study confirms the existence of statistically significant relationship between loan repayment by the customer and institutional profitability on loan performance of the financial institution.

#### 4.4 RESULTS OF RESEARCH OBJECTIVE 3

Frequencies were used to analyze the results of the research objective number 3 which was to examine the effects of client appraisal on loan performance of CRDB plc. Elements such as collateral attachment, loan size and loan appraisal report were used by the researcher to evaluate the effects of client appraisal. Data collected from respondents were presented by using frequencies and percentages.

**Table 4.9: Policy of extending loan only if collateral is provided by the client**

Response	Frequency	Percent
Strongly disagree	0	0
Disagree	2	20
Neutral	1	10
Agree	4	40
Strongly agree	3	30
<b>Total</b>	<b>10</b>	<b>100</b>

**Source:** Primary data, (2014)

According to table 4.9, 20% of the respondents were on disagreement that that the bank had a policy of extending loan to client only if collateral was provided.10% of the respondents were neutral, 40% of the respondents were in agreement and 30% were in strong agreement that CRDB bank had a policy of extending loans only if collateral has been provided by the client. It can be noted that the biggest percentage of the respondents were in agreement that the bank has the policy of extending credit to client only if collateral is attached. It was argued that collateral attachment by the borrower during loan application was important in case of post-default scenario. A Financial Institution should evaluate the collateral that was used as security when appraising the customer, estimate its market value, asses the quality of the collateral and whether its value was likely to be maintained, this was due to the fact that, in case of default the Financial Institution will recover the collateral in order to service the loan.

**Table 4.10: Analysis of the loan size**

<b>Response</b>	<b>Frequency</b>	<b>Percent</b>
Strongly disagree	2	20
Disagree	0	0
Neutral	1	10
Agree	6	60
Strongly agree	1	10
<b>Total</b>	<b>10</b>	<b>100</b>

**Source:** primary source, (2014)

From the results of table 4.10 above, 20% of the bank staffs were in disagreement and 10% of the respondents were neutral that access to credit depended on loan size that was applied by the customer. 60% of the staffs were in agreement and 10% of the respondents were in agreement that access to credit depended on the size of the loan that was applied by the customer. They argued that bank usually extend bigger loans to their clients in order to reduce transaction cost, hence the smaller the loan size given to a customer the higher the transaction cost. Hence the bank considers the amount of the loan that was applied by the customer if it covers the transaction costs. 10% of the respondents were neutral, they did not agree or disagree that loan size had an effect on loan performance of the institution.

#### Loan appraisal report

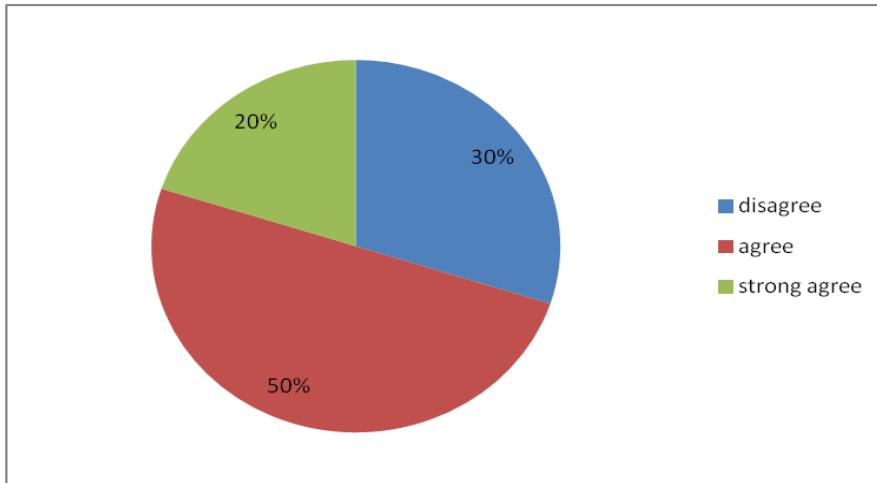
The results of respondents from the bank, the frequency indicates that 90% were in agreement that loan appraisal reports are always prepared and reviewed by management before loan are extended to the customers. The management of the bank use clearly laid down procedures to appraise loans applications to ensure that, only those approved business sectors with less risk exposure had access with the loan. 10% of the respondents were in disagreement.

#### **4.5 RESULTS OF RESEARCH OBJECTIVE 4**

Research objective 4 was to examine the effects of credit risk on loan performance. The variables under study were loan monitoring and continuous appraisal system of loan granted to the clients. The results were presented in terms of pie chart and graphs.

## Loan monitoring

**Figure 4.1: Loan monitoring**

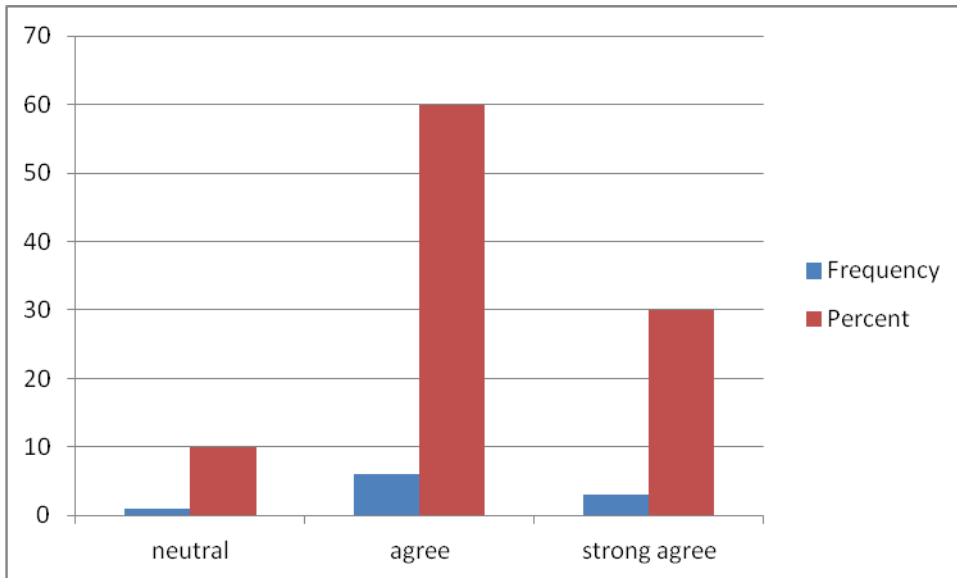


**Source:** Primary source, (2014)

The results from the pie chart presented above, shows of 100% responses, only 30% responses of the bank workers were in disagreement that their organization emphasize close monitoring on loan extended to clients, the rest were in agreement with the subject under study. Those who were in agreement argue that, though the bank does not do it so often, time has revealed that continuous monitoring is the most effective and efficient approach in identifying control breaches, anomalies and high risk activities at early stages. It helps the bank to apply immediate strategies to prevent and minimize the impact of any possible loan portfolio impairment.

## Continuous loan appraisal

**Figure 4.2: Continuous appraisal system of loan**



**Source:** Primary source, (2014)

Results from figure 4.2 above indicates that 60% and 30% of the bank respondents were in agreement that a continuous appraisal system of loan process is important for the well being of their institution, while the 10% were neutral about continuous appraisal system of loan. Continuous appraisal system of the loan granted to clients is important as it enabled the bank to discover possible areas of default in their loan portfolio. This is among the risk measures that the financial institution takes in order to make sure that loans were only given to those approved sector with less risk exposure.

The bank considers continuous appraisal system as a major loan performance factor. It used stringent appraisal system which ensures that loans were exposed to those few sector with less or minimum risk exposure. Since few sectors qualify to access loans from the bank, the more stringent the appraisal system the less business sector served by the bank.

## 4.6 RESULTS FROM BORROWERS

### 4.6.1 Ability to repay the current loan

Pearson correlation analysis was run to find if there was a relationship between customers who had loans in another financial institutions if it affected them to repay the current loan at CRDB Plc Ltd with other independent variables. The independent variables were, did customer get the exact loan amount, and loan application and repayment supervision.

**Table 4.11: Analysis of the ability to repay loan**

	<b>AR</b>	<b>AL</b>	<b>LAR</b>
AR	1	-0.592** (0.033)	0.527* (0.064)
AL	-0.592** (0.033)	1	-0.173 (0.464)
LAR	0.527* (0.064)	-0.173 (0.464)	1

#### NOTE

\*\* Correlation is significant at 0.05 level

\*Correlation is significant at 0.1 level

From the Pearson correlation analysis table 4.11 above, the analysis shows that all the independent variables are positively and negatively correlated with the ability to repay the current loan. Amount of loan taken by the customer from another financial institution had a negative correlation with the ability to pay the current loan. This means that increase or decrease in the amount that had been taken by the customer will result into a decrease or increase on that customer's ability to repay the loan at CRDB bank.



On the other hand, loan application and repayment supervision had a positive correlation with ability of the customer to repay the current loan. That means independent variable will show its effects on the dependent variable at the same direction. The data collected indicates that, the customers of the bank are supervised on how they repay their loans they took, this has improved their ability to repay the loan, and it has made it possible for the bank to notice if there was any default in repayment by the customer. Hence this enabled the bank to improve their loan portfolio performance.

**Table 4.12: Regression analysis of the ability to repay current loan at CRDB bank**

Model	Beta	t-test	Sig
Constant	2.535	1.605	0.139
AL	-0.537	-2.545	0.029
LAR	0.463	2.197	0.053

Dependent variable: ability to repay current loan at CRDB bank

Regression analysis was run to identify if a statistically significant relationship existed between the independent and dependent variables that were used in this study. The dependent variable was ability to repay the current loan and the independent variables were amount of loan taken and loan application and supervision. The results for the run of the linear regression with the set of ability of the customer to repay the current loan included two independent variables, produced an R-square value of 56.2% of the variance in the dependent variable.

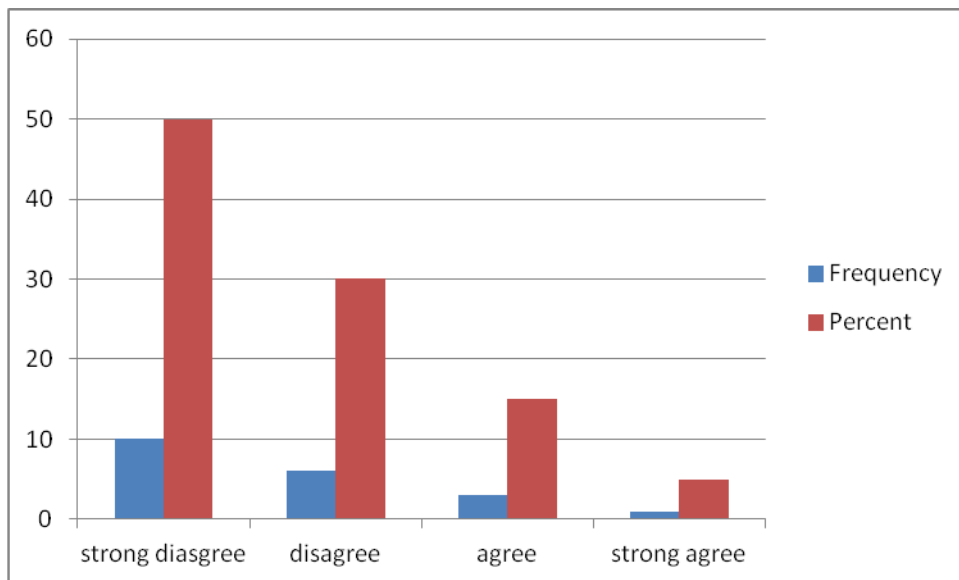
The amount of loan that was taken by the customer was found to have a statistical significant relationship with the ability of the customer to repay the current loan. The results from the run of linear regression of the variables, confirmed the expectation of hypothesis, with computed P-value of 0.029, Beta=-0.537 and t-value=-2.545).

An analysis of the relationship between ability to repay the loan by the customer and loan application and repayment supervision was tested at 95% confidence level, the researcher found a significant relationship between the ability to repay the current loan

and loan application and repayment supervision , since the computed P-value= 0.053, Beta=0.463 and t-value=2.197

### Customer training

**Figure 4.3: Training to clients and supervision on loan granted**



**Source:** Primary data, (2014)

From the chart presented above from borrowers as to whether the institution provided training to them and supervision on how the loan granted was spent, the responses were as follows. A large percent of the respondents were in disagreement that the bank gave them training and provided supervision on how the loan granted was spent. This made to a total number of 30% of the responses who were in disagreement and 50% of the respondents who strongly disagreed while the rest of the 20% were in agreement that the bank offered them training on how to utilize the loan granted to them.

These findings were in agreement with the study of Kagwa (2003), who argued that most commercial banks do not give training and supervision to their clients on how they use the loan granted to them. They base their assumption that their clients are knowledgeable and they know what they want, so it's not the business of the bank to identify projects for their clients and provide business education to them. Training is important to clients on loan matters in order to improve loan performance of a financial institution.

### **Perception of borrowers on interest charged**

**Table 4.13: Analysis of the interest rate set by the institution**

<b>Responses</b>	<b>Frequency</b>	<b>Percent (%)</b>
Low	0	0
Medium	7	35
High	13	65
<b>Total</b>	<b>20</b>	<b>100</b>

**Source:** Primary data, (2014)

From the data collected from the field, 100% of the borrowers answered on the question asked about the interest charged by CRDB bank on their loans. 35% of respondents agreed that the interest charged by the bank was medium and 65% of the respondents were in agreement that, the interest charged was high. It was argued that if the interest charged is high, it normally affects the ability of the borrowers to repay their loans and it may also be the reason of why borrowers default in their loans. High interest rate makes it a difficult process for both borrowers and the bank on how to manage the loan portfolio. This argument is in agreement with the findings of the study of Edakasi (2011).

## **CHAPTER FIVE**

### **DISCUSSION OF THE FINDINGS**

#### **5.1 INTRODUCTION**

This chapter presents the discussion of the research findings. It discusses what was revealed after analyzing the research data in relation to the research topic, conceptual framework and literature review. It further gives an interpretation of the study findings. Respondents were asked a variety of questions pertaining to their knowledge, skills and dispositions

The study had a total number of 30 respondents who were investigated. The sample size of the population comprised of 10 working staff of CRDB Bank Plc and 20 were borrowers of the bank.

#### **5.2 EFFECTIVENESS OF COLLECTION POLICY ON LOAN PERFORMANCE**

Objective 1 of the research was to assess the effectiveness of collection policy adopted by CRDB Plc Ltd on their loan performance. Correlation and regression analysis were conducted to establish the degree of relationship between the variables under study. The variables were loan interest profitability on loan performance as a dependent variable, and employee training, credit policy emphasize on extending loan, policy on the size of the loan, policy of providing small loan according to credibility, collection policy and decision made by management as independent variables.

The results of the Pearson correlation indicates that policy on the size of the loan was positively correlated with the loan interest profitability of the company. This indicates that the policy that the bank has on the size of the loan that was allowed to be granted to a client had a direct relationship with loan interest profitability on loan performance. That means a good policy on the size of the loan results into a better loan portfolio performance. Also there was a statistically significant relationship between the two variables, since the computed p-value of 0.048 was less than the level of 5%. It is

argued that efficient loan sizes fit borrowers' ability to repay and stimulate the business activity that the borrower is engaged in. If the amount of loan released is enough for the activity intended for, it will have a positive impact on the ability of the borrower to repay the loan. And in cases where the size of the loan granted may be small than the purpose intended for, it may encourage the borrower to turn away the loan on other purposes. So the bank's policy on the size of the loan is very clear as it ensures that the loan granted to its customers is enough for the purpose intended for. And also it enables the bank to know the capacity of the borrower to repay the loan interest and the principle.

Also the findings of the regression analysis indicates there was a statistical significant relationship between credit policy emphasize on extending loan and loan interest profitability on loan performance, since the computed p-value of 0.088 was significant at the level of 10%. As one of the leading bank in Tanzania, the bank provides various financial services to various sectors. Loans comprise a major portion of most banks' asset and category which ordinarily presents the greatest credit risk and potential loss exposure to banks. Though the bank has a credit policy that emphasizes on extending loans to its customers, it has to make sure that it does not expose much of its loans to risk sectors that have high possibility of defaulting and that weakens its loan performance.

### **Customer training**

From the results of the data presented on figure 4 from borrowers' responses as to whether the institution provided training to them and supervision on how the loan granted was spent, the responses were as follows. A large percent of the respondents were in disagreement that the bank gave them training and provided supervision on how the loan granted was granted. This made to a total number of 30% of the responses were in disagreement and 50% of respondents who strongly disagrees while the rest of the

20% were in agreement that the bank offered them training on how to utilize the loan granted to them.

These findings were in agreement with the study of Kagwa (2003), who argued that most commercial banks do not give training and supervision to their clients on how they use the loan granted to them. They base their assumption that their clients are knowledgeable and they know what they want, so it's not the business of the bank to identify projects for their clients and provide business education to them. Training is important to clients on loan matters in order to improve loan performance of a financial institution and to ensure that the loan granted was used for the intended purpose and nothing else.

When the bank provide various training to its clients, their clients will be able to understand the rules and regulations better and easily. They will also develop skills on how to do business and money utilization. Training is needed for both clients and loan officers, as its use has a positive impact on the repayment rate. This is in agreement with Norell (2001) who explained the importance of training in decreasing default rate. And the findings of Walter and Lilian(2013) who explained that training was important in that it empowers borrowers with knowledge on utilization of loan fund, which in turn would translate better loan performance and lower default rate.

Loan usage and training is one of the factors that normally affect the repayment rate. If the entire loan was used for the intended activities, the repayment will be enhanced. By putting the whole loan for running business, it is to generate income and performing the business in a better way. If the loan is used for un intended activity or purpose, it will hinder the repayment process by the client. Training also helps and enables the client to utilize the loan granted by the bank in an efficient manner.

### **5.3 EFFECT OF CREDIT TERMS ON LOAN PERFORMANCE**

Objective 2 was to establish the effect of credit terms on loan performance of a financial institution. The variables under study were institution profitability on loan performance as a dependent variable and the independent variables were interest charged, managerial decision process, loan repayment by customer and collection of credit from creditors. Pearson correlation and regression analysis were conducted to establish if there was any relationship between the independent and dependent variables.

The findings from correlation analysis show that, all the dependent variables were negatively correlated with the dependent variable. That means the increase of the dependent variables will result to the decrease of institution profitability on loan performance.

More over the results from the run of regression analysis showed that, the coefficient of the loan repayment by customer was statistically significant and confirm the expectation of hypothesis, with ( $P=0.041$ ,  $Beta=-1.178$  and  $t\text{-value}=-2.737$ ), it indicated that, loan repayment by the customer had a negative effect on institutional profitability on loan performance of a bank. Interest charged by the bank has an effect on the ability of the client to repay the loan; hence it weakens the institution profitability. This is in agreement with Thordsen and Nathan (1999), they argued that, when interest rates are low, people are willing to borrow because they find it relatively easy to repay their loan. And when the interest rate charged by the bank is high, people are reluctant to borrow because payment on loans becomes cost more. Some consumers may even find difficult to meet their existing loans repayments, especially if interest rate increases faster than the rate of consumers' income. If interest rates stay high for a long period of time, some clients or borrowers will default their loans.

#### **Perception of borrowers on interest charged**

The findings of the data collected from the field as was presented on table 8, 100% of the borrowers answered on the question asked had different perception on the interest

charged by CRDB bank on their loans. 35% of respondents agreed that the interest charged by the bank was medium and 65% of the respondents were in agreement that, the interest charged was high. It was argued that if the interest charged was high, it normally affects the ability of the borrowers to repay their loans and it may also be the reason of why borrowers default in their loans. High interest rate makes it a difficult process for both borrowers and the bank on how to manage the loan portfolio. This argument is in agreement with the findings of the study of Edakasi (2011).

### **Ability to repay the current loan**

Pearson correlation and regression analysis were run to find if there was a relationship between customers who had loans in another financial institutions if it affected them to repay the current loan at CRDB Plc Ltd with other independent variables. The independent variables were, loan amount, and loan application and repayment supervision.

The results of Pearson correlation analysis indicated that amount of loan taken by the customer had a negative correlation with the ability to pay the current loan. This means that increase or decrease in the amount of loan that had been taken by the customer from another financial institution will weaken or improve that customer's ability to repay the current loan at CRDB bank. If the client takes a large amount of loan from other commercial bank, it will weaken his or her ability to repay the current loan at CRDB bank since there will be an increase in responsibility of paying monthly loan interest and repaying the principle of the two financial institutions and vice versa. The results from the run of regression analysis also showed that there was a statistical significant relationship between the variables since the computed p-value was 0.029 which was less than the significant level of 0.05.

On the other hand, loan application and repayment supervision had a positive correlation with ability of the customer to repay the current loan. That means independent variable affects the dependent variable on the same direction. Increase in loan application and



repayment supervision will result into an increase in ability of the customer to repay the current loan at the bank. The data collected indicates that, the customers of the bank were supervised on how they repay their loans they took, this has improved their ability to repay the loan, and it has made it possible for the bank to notice if there was any default in repayment by the customer. Hence this enabled the bank to improve their loan portfolio performance and minimize the non-performing loans. Also a statistical significant relationship between the variables was found from the run of regression analysis, since the computed p-value was 0.053 tested at 95% confidence level.

#### **5.4 THE EFFECTS OF CLIENT APPRAISAL ON LOAN PERFORMANCE**

To identify and examine how the client appraisal affects the loan performance at CRDB bank was the researcher's objective 3. Frequencies and tables were used to present and analyze the results of this research objective. The variables under study were policy on extending loan only if collateral was provided by the customer, loan size and loan appraisal report.

According to the results of Table 4.9, 20% of the bank respondents were on disagreement and 10% were neutral that that the bank had a policy of extending loan to client only if material collateral was provided.40% of the respondents were in agreement and 30% were in strong agreement that CRDB bank had a policy of extending loans only if material collateral has been provided by the client. Collateral attachment by the borrower during loan application is important in case of post-default scenario. A Financial Institution should evaluate the collateral that was used as security when appraising the customer, estimate its market value, asses the quality of the collateral and whether its value is likely to be maintained, this was due to the fact that, in case of default the Financial Institution will recover the collateral in order to service the loan. These findings were in agreement with the findings of Haron. O et al (2012), they found a significant relationship between collateral attached as security and loan performance

since the computed p- value (0.000) was less than 0.05 at 95% confidence level and the computed chi-square value was (21.888) at 3 degree of freedom.

### **Loan size**

From the results of table 4.10 above, 20% of the bank staffs were in disagreement that access to credit depended on loan size that was applied by the customer. 60% of the staffs were in agreement and 10% of the respondents strongly agreed that access to credit depended on the size of the loan that was applied by the customer. They argued that bank usually extend bigger loans to their clients in order to reduce transaction cost, hence the smaller the loan size given to a customer the higher the transaction cost. Hence the bank considers the amount of the loan that was applied by the client on their appraisal system if it covers the transaction costs. 10% of the respondents were neutral, they did not agree or disagree that loan size had an effect on loan performance of the institution. It is in agreement with S.U.O. Onyagocha et al (2012), who argued that higher loans make possible larger investments with potential higher absolute returns.

### **Loan appraisal**

The results of respondents from the bank, the frequency indicates that 90% were in agreement that loan appraisal reports are always prepared and reviewed by management before loan are extended to the customers. The workers of the bank use clearly laid down procedures to appraise loans applications to ensure that, only those approved business sectors with less risk exposure had access with the loan. Loan appraisal is one of the major important elements to be considered on loan performance. Management of the bank has the duty and responsibility of preparing and reviewing loan appraisal report as it will enable them to know their client better before extending credit to them. This will enable the bank to minimize the level of default from creditors who prove to be not worth of the credit. And it also enables them to know their clients better.

## **5.5 EFFECTS OF CREDIT RISK ON LOAN PERFORMANCE.**

Research objective 4 was to examine the effects of credit risk on loan performance. The variables under study were loan monitoring and continuous appraisal system of loan granted to the clients. The results were presented in terms of pie chart and graphs.

### **Loan monitoring**

The results from the pie chart presented in figure 4.1, showed that out of 100% responses, only 30% responses of the bank workers were in disagreement that their organization emphasize close monitoring on loan extended to clients, the rest were in agreement with the subject under study. Those who were in agreement argue that, though the bank does not do it so often, time has revealed that continuous monitoring is the most effective and efficient approach in identifying control breaches, anomalies and high risk activities at early stages. It helps the bank to apply immediate strategies to prevent and minimize the impact of any possible loan portfolio impairment.

Continuous monitoring of the loan portfolio allows various stakeholders to quickly determine, by the review of electronic records, any activities or conditions that require attention before they become problems. These findings were in disagreement with the findings of Kagwa Pafula (2003) who argues that commercial banks do not carry loan monitoring

### **Continuous loan appraisal**

Results from figure 4.2, indicates that 60% and 30% of the bank respondents were in agreement that a continuous appraisal system of loan process is important for the well being of their institution, while the 10% were neutral about continuous appraisal system of loan. Continuous appraisal system of the loan granted to clients is important as it enabled the bank to discover possible areas of default in their loan portfolio. This is among the risk measures that the financial institution takes in order to make sure that loans were only given to those approved sector with less risk exposure.

The bank considers continuous appraisal system as a major loan performance factor. It used stringent appraisal system which ensures that loans were exposed to those few sector with less or minimum risk exposure. Since few sectors qualify to access loans from the bank, the more stringent the appraisal system the less business sector served by the bank.

Through continuous loan appraisal report, the financial institution has been able to identify which sector default much in their payment. At CRDB bank, agricultural sector was one of the biggest sector that the bank has loan exposure. The growth in the loan portfolio was lower than the growth achieved in 2012 due to deliberate decision by the bank to consolidate loan portfolio by slowing down lending and continuing to reduce the exposure to the agriculture sector, which for the past few years had continued to be the most risky lending area of the bank.

### **Conclusion**

The findings of the study reveal that the research question was answered as it has identified various factors affecting loan performance in financial institutions. These factors include collection policy, credit terms, client appraisal and credit risk. Findings that were obtained from the factors affecting loan performance at CRDB bank are the factors that affect also other financial institutions.

The independent variables that had a positive impact on the loan performance of the bank were policy on the size of the loan, policy that emphasize on extending loan to individuals, collateral attachment, loan monitoring , continuous loan appraisal system and appraisal reports. The study reveals that the increase in any of these variables will result into the improvement or increase in loan performance of a financial institution.

The independent variables that had a negative impact on loan performance of the bank were interest rate charged, customer training, and the amount of loan taken from other financial institutions. The financial institution should take consideration of these

variables when extending credit to a client, as the increase in any of these variables may weaken their loan performance.

The current link between the borrowers and financial institutions in-terms of training is underutilized. Training clients is a very important element that financial institution should take into consideration to ensure that the loan they grant to the borrowers is used according to intended purpose and that business is done in a professional way in order to improve loan performance of the bank. And also the financial institutions should evaluate their clients well before granting credit in order to identify the areas with less credit risk exposure.

#### **Areas for further studies**

The researcher recommends that further study to be carried on the following areas

- Effects of customer training in loan repayment of a financial institution.
- Assessment of the effects of economic downturn in loan performance.
- Other factors that affects loan performance in financial institutions such as political consideration and prevailing economic conditions.

## **CHAPTER SIX**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **6.0 INTRODUCTION**

This chapter aims at summarizing what has been discussed in the preceding chapters and making necessary conclusion and recommendation on the factors affecting loan performance in financial institutions, a case study of CRDB Bank Plc Ltd of Mwanza Region.

#### **6.1 SUMMARY OF THE RESEARCH**

Respondents were asked a variety of questions in accordance to their skills and knowledge. The questions were asked basing on the four objectives of the study to examine the factors affecting loan performance in financial institutions. The results were found from both working staff of CRDB Bank and the bank borrowers.

This study focused on the factors affecting loan performance in financial institution, a case study of CRDB Bank in Mwanza region. The study examined collection policy, credit terms, client appraisal and credit risk of the bank. The study was of both qualitative and quantitative designs. Primary data was obtained from the bank customers and staff of CRDB Bank. Primary data was collected by using questionnaires and interview which was conducted to some of the staff of the bank. Documentary review was also one of the techniques that were used to collect data.

Qualitative and quantitative techniques were used to analyze and manage the data. These analyses involved the comparison of the data collected and subjective reasoning. Data analysis also involved the use of relevant statistics such as percentages, frequency tables, regressions and correlations in order to come up with concrete findings and suggestions was based on a computer programmed known as Statistical Package for Social Sciences (SPSS).

The study clearly showed to a great extent the relationship that existed between the dependent and independent variables. Dependent variables such as policy on the size of the loan, credit policy emphasizes on extending loans to individuals as opposed to group borrowing, interest rate charged that affects loan repayment by customers, attachment of collateral as security, customer training, loan appraisal and monitoring were closely examined.

## **6.2 CONCLUSION**

### **6.2.1 General**

The study established that loan performance is affected by the four factors namely, collection policy, credit terms, client appraisal and credit risk. The study further established among other factors, there was a statistical significance between loan performance and collection policy followed by the credit terms. Client appraisal and credit risk showed their effects through frequencies and percentages. Banks will formulate credit policies bearing in mind that it should increase their revenue and improve the financial performance. It therefore follows that, if clients are made aware of these factors that affect loan performance, they will service their loan in order to avoid defaulting, which will result into more credit that will be available to other clients. This as a result will enable the clients to develop and boost the economic growth, and the financial institution's loan portfolio will remain health to provide services to other customers and hence reduce economic dependence.

### **6.2.2 Specific Conclusions**

Collection policies adopted by the bank had an effect on its loan performance. Policy on the size of the of the loan that the bank grants to its clients and the credit policy that emphasize on extending loans to clients had a great impact on loan interest profitability on loan performance of a financial institution.

Credit terms formulated by the bank do affect its loan performance. The interest charged by the bank had shown to a greater extent that it has an effect on the repayment of loan by the clients. It had shown a negative impact on the performance of loans; the higher the interest rate charged by the bank the lower the loan performance.

Client appraisal helps the financial institutions to improve loan performance as they get the chance to understand their clients better before extending credit to them. The loan size that is applied by the client, collateral attached as a security and loan appraisal system had shown to have an effect on loan performance of the bank.

Credit risk adopted by the bank has an effect on loan performance. Loan monitoring had an effect on loan performance of the bank, as it's the most effective and efficient way in identifying control breaches, anomalies and high risk activities at early stages. Continuous loan appraisal was one of the important risk measures taken by the bank in order to make sure that the loans were only given to those approved sectors with less risk exposure.

### **Borrower's conclusion**

The amount of loan taken by a client from another financial institution had a negative impact on the ability of the client to repay the current loan at CRDB bank. The higher the amount taken by the client from another financial institution, the lower the ability to repay current interest and principal of the loan at the bank. This is due to the increase in obligations that the borrower has to pay the interest rates and principle of the loan granted by different financial institutions at the same time.

Loan application and supervision on repayment had a positive effect with the ability of the client to repay the current loan. Better supervision of loan applications and repayment by the bank had enabled the borrowers to repay their loans on timely basis. This has reduced the possibility of defaulting on their loans.



There was a disagreement of 80% of responses by the bank borrowers that they have received any training from the bank on how to utilize their loans once granted. Interest rate charged by the bank to clients, most of the borrowers had a perception that the interest charged was high. Interest charged has a negative impact on the loan performance, as it was argued that, high interest rate normally affects the ability of the borrowers to repay their loans hence leads to a poor loan performance of a financial institution under concern.

### **6.3 Recommendations**

Based on the findings of this study, the following recommendations have been suggested by the researcher.

- Financial institutions should consider interest rates that they charge on loans granted to their clients. This is due to the fact that interest rates have a negative effect on loan performance.
- Financial institution should consider policy on the size of the loan and the policy that emphasizes on extending loans to clients because they have an impact on loan performance. If well managed, they lead into a better loan performance.
- Financial institution should provide training to their customers as it is important to improve loan performance of a financial institution and to ensure that the loan granted was used for the intended purpose and nothing else. Financial institutions should not go on with the concept that their clients know what they are doing and it's not their responsibility to provide training on what project they should undertake, if they want to improve their loan portfolio performance.

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## **APPENDICES**

### **APPENDIX 1: QUESTIONNAIRES TO THE RESPONDENTS ( BANK STAFF)**

Dear interviewee

You are kindly requested to answer the set of questions here below by giving relevant information. This research is conducted to assess the factors affecting loan performance in financial institutions in Tanzania. This research will help to improve the efficiency of the credit department in various financial institutions to help to minimize loan defaults. This research is for academic purposes and the information will be treated confidentially. Therefore, with due respect, you are requested to make your contribution towards this by kindly and honestly filling these questions.

Name of your section/ department.....

Topic: Factors affecting loan performance in Financial Institutions in Tanzania.

### **INSTRUCTIONS**

Please circle the appropriate answer.

#### **SECTION 1**

1. Gender
  - a. Female
  - b. Male
2. Age group
  - a. 18-23
  - b. 24-29
  - c. 30-35
  - d. Above 35

3. Position of respondent
  - a. Top level management
  - b. Middle level management
  - c. Loan officer

**SECTION 2. COLLECTION POLICY**

4. As the matter of policy, what is the rank of the sector that your Financial Institution extends credit? Please write the number in the box provided

Agricultural

Mining

Business

Fishing

Manufacturing


5. Employees training in loan policy is very important and necessary

- a. Strongly disagree
- b. Disagree
- c. Not sure
- d. Agree
- e. Strongly agree

6. The Financial Institution have a credit policy that emphasizes on extending loans to individuals as opposed to group borrowing

- a. Strongly disagree
- b. Disagree
- c. Not sure
- d. Agree
- e. Strongly agree

7. Does the financial institution have a policy on size of loan to provide to a prospective credit customer?
  - a. Strongly disagree
  - b. Disagree
  - c. Not sure
  - d. Agree
  - e. Strongly agree
8. Does your institution has a deliberate policy of providing small loans and gradually increases the amount according to credibility of borrowers?
  - a. Strongly disagree
  - b. Disagree
  - c. Not sure
  - d. Agree
  - e. Strongly agree
9. Does the collection policy differ according to the loan size?
  - a. Strongly disagree
  - b. Disagree
  - c. Not sure
  - d. Agree
  - e. Strongly agree
10. Loan size is given based on the past decisions made by management
  - a. Strongly disagree
  - b. Disagree
  - c. Not sure
  - d. Agree
  - e. Strongly agree

### **SECTION 3: CREDIT TERMS**

11. Are most of your clients comfortable with the interest rate charged or offered by the bank?
  - a. Strongly disagree
  - b. Disagree
  - c. Not sure
  - d. Agree
  - e. Strongly agree
12. Loan interest is one of the basis of managerial decision making process concerning the loan size.
  - a. Strongly disagree
  - b. Disagree
  - c. Not sure
  - d. Agree
  - e. Strongly agree
13. Do you think that the interest charged by the bank has an effect on the repayment of loan by the customers?
  - a. Strongly disagree
  - b. Disagree
  - c. Not sure
  - d. Agree
  - e. Strongly agree
14. How long does it take for a bank to collect credit from creditors?
  - a. Less than 1 Year
  - b. Between 1 year to 5 Years
  - c. Above 5 years



#### **SECTION 4: CLIENT APPRAISAL**

15. Management emphasizes credit appraisal using loan officers with extreme knowledge of the local population
  - i. High
  - ii. Medium
  - iii. Average
  - iv. Low
16. In our credit appraisal, we work hand in hand with the community leaders in assessing the creditworthiness of borrowers
  - a. Strongly disagree
  - b. Disagree
  - c. Not sure
  - d. Agree
  - e. Strongly agree
17. The financial institution has a policy of extending loan only if a collateral is provided by the client?
  - a. Strongly disagree
  - b. Disagree
  - c. Not sure
  - d. Agree
  - e. Strongly agree
18. The institution can grant loan to the client without getting material collateral from the client?
  - a. Strongly disagree
  - b. Disagree
  - c. Not sure
  - d. Agree
  - e. Strongly agree

19. Does the access to credit depend on the loan size applied by the customer?

- a. Strongly disagree
- b. Disagree
- c. Not sure
- d. Agree
- e. Strongly agree

20. Loan appraisal reports are always prepared and reviewed by management before loans are given out

- a. Strongly disagree
- b. Disagree
- c. Not sure
- d. Agree
- e. Strongly agree

21. Does the prevailing changes in economic conditions affects the ability of your customers to service their loan?

- a. Strongly disagree
- b. Disagree
- c. Not sure
- d. Agree
- e. Strongly agree

## **SECTION 5: CREDIT RISK**

22. Does our institution emphasize short term loans to test client's ability to repay?
- a. Strongly disagree
  - b. Disagree
  - c. Not sure
  - d. Agree
  - e. Strongly agree
23. Does risk management differ according to the loan size?
- a. Strongly disagree
  - b. Disagree
  - c. Not sure
  - d. Agree
  - e. Strongly agree
24. Once the loan is applied, the total amount is extended to the client immediately
- a. Strongly disagree
  - b. Disagree
  - c. Not sure
  - d. Agree
  - e. Strongly agree
25. Our organization emphasizes close monitoring on loan extended to clients
- a. Strongly disagree
  - b. Disagree
  - c. Not sure
  - d. Agree
  - e. Strongly agree

26. What level of training do the loan officers receive to ensure that there is close loan monitoring to increase recovery of loan extended
- a. Long courses training
  - b. Short courses training
  - c. No training at all
27. A continuous appraisal system of loan process is important
- a. Strongly disagree
  - b. Disagree
  - c. Not sure
  - d. Agree
  - e. Strongly agree

**SECTION 6: LOAN PERFORMANCE**

28. How important are the following financial measures to your to your institution on loan performance

	1 Strong disagree	2 Disagree	3 Not sure	4 Agree	5 Strongly agree
Institution profitability					
Client business profitability					
Loan interest repayment					
Principle repayment					

## **APPENDIX 2: QUESTIONNAIRES TO BORROWERS**

Dear interviewee

You are kindly requested to answer the set of questions here below by giving relevant information. This research is conducted assess the factors affecting loan performance in financial institutions in Tanzania. This research will help to improve efficiency of the credit department in various financial institutions to help to minimize loan defaults. This research is for academic purposes and the information will be treated confidentially. Therefore, with due respect, you are requested to make your contribution towards this by kindly and honestly filling these questions.

Name of the respondent (option) .....

Topic: Factors affecting loan performance in Financial Institutions in Tanzania.

### **INSTRUCTIONS**

Please circle the appropriate answer.

#### **SECTION 1: GENERAL QUESTIONS**

1. Gender
  - a. Female
  - b. Male
2. Age group
  - a. 18-23
  - b. 24-29
  - c. 30-35
  - d. Above 35
3. Are you literate?
  - a. Yes
  - b. No

4. If yes, your education level is
  - a. Primary level
  - b. Secondary level
  - c. University level
5. Do you have a saving account at CRDB Plc Ltd?
  - a. Yes
  - b. No
6. Do you have a loan at CRDB plc Ltd?
  - a. Yes
  - b. No
7. Do you have loans in another financial institution?
  - a. Yes
  - b. No
8. If the answer is yes in question 7, does it affect your ability to repay the current loan at CRDB?
  - a. Strongly disagree
  - b. Disagree
  - c. Not sure
  - d. Agree
  - e. Strongly agree

9. What type of business your currently engaged? (please tick on the box)

Agriculture	<input type="checkbox"/>
Fishing	<input type="checkbox"/>
Business	<input type="checkbox"/>
Mining	<input type="checkbox"/>

10. Did you spend the entire loan borrowed for running your business?

- a. Strongly disagree
- b. Disagree
- c. Not sure
- d. Agree
- e. Strongly agree

11. Did you get the exact amount of loan from CRDB Plc Ltd that you requested or applied?

- a. I got the full amount
- b. I got half amount

## **SECTION 2: INSTITUTIONAL RELATED QUESTIONS**

12. Is the repayment procedure set by CRDB Plc Ltd suitable?

- a. Strongly disagree
- b. Disagree
- c. Not sure
- d. Agree
- e. Strongly agree

13. Interest rate for loan set by the institution is

- a. Low
- b. Medium
- c. High

14. Is the loan application and repayment supervision made by one loan officer throughout the process?
- a. Strongly disagree
  - b. Disagree
  - c. Not sure
  - d. Agree
  - e. Strongly agree
15. The institution ensures the clients are aware of the credit terms before signing the loan application papers
- a. Strongly disagree
  - b. Disagree
  - c. Not sure
  - d. Agree
  - e. Strongly agree
16. The institutions provides training to the clients and supervises on how the loan granted is spent
- a. Strongly disagree
  - b. Disagree
  - c. Not sure
  - d. Agree
  - e. Strongly agree
17. The repayment period set by the institution is suitable for me to repay the entire loan
- a. Strongly disagree
  - b. Disagree
  - c. Not sure
  - d. Agree
  - e. Strongly agree



## **APPENDIX 3: INTERVIEW GUIDE**

### **1. INTRODUCTION.**

**Objective:** Establish credibility and connectivity, and motivate interviewer to respond openly.

**Method:** Explain purpose of interview. The interview is intended to provide information on financial institutions loan portfolio performance. It's purely academic and information obtained will be kept with utmost confidentiality. Your contribution would indeed help in understanding loan portfolio performance and assist in improving performance. It's a pleasure to interview you in order to get your honest and truthful answers in order to understand financial institutions loan portfolio performance.

### **2. FINANCIAL INSTITUTION'S LOAN PERFORMANCE GUIDELINES QUESTIONS**

- a) Introduce topic and ask respondents to identify the major credit risk they normally encounter and seek opinion on how the financial institution mitigate those risks identified.
- b) Introduce topic and ask respondent to identify the major collection policies in his/her financial institution. Encourage respondents to explain the policies identified and seek opinion on how it has affected loan performance of the institution.
- c) Introduce and ask respondent to identify and explain the credit terms that is established in the financial institutions.

### **3. CONCLUSION**

- a) Obtain other factors that affect his/her institution if any.
- b) Thank the respondent for his/her response and participation.