ASSESSMENT OF FACTORS AFFECTING LOAN REPAYMENT PERFORMANCE IN OMO – BANK (IN THE CASE OF WOLKITE BRANCH)

WOLKITE *UNIVERSITY*

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

A RESEARCH PAPER SUBMITED IN PARTIAL FULFILMENT OF THE REQUIRMENTS FOR THE AWARD OF BA DEGREE IN ACCOUNTING AND FINANCE

PREPARED BY: ABENEZER TEKA

ADVISOR: MR BIRHANU DEREJA

MAY, 2023

WOLKITE, ETHIOPIA

DECLARATION

I undersigned, declare that this research paper is my original work and it has not been presented for a degree program in any other university and all materials use for this paper have been duly acknowledge.

Name of student ABENEZER TEKA

Signature…….

Date……..,

This student research paper has been submitted for examination with my approval as a university advisor.

_____ _____

Name of advisor signature

Date_____

Certification

This is to certify that the assessment of factor affecting loan repayment of omo bank and submitted to Partial Fulfillment of the Requirement for Accounting and Finance.

I the undersigned advisor acknowledge and confirmed this study to pass to presentation

Advisor

Name……

Signature……..…

Date……

Examiner

Name ……..

Signature ……

Date ……..

Acknowledgment

First of all, I would like to thank my Almighty God, for his invaluable support in my life. Second, I would like to sincerely thank my advisor Birhanu Dereja for his support, advice, and understanding in the preparation of this research paper. Thirdly, I would like to thank all those who support me in the preparation of this study, including the employees of the omo bank at the Wolkite branch who provide me with relevant information. Finally, I am deeply grateful to my family for their unlimited financial support.

ABSTRACT

Commercial banks have a significant role in the development of one's country's economic development by providing credit and also a saving service for those productive clients. Though there are many factors that can affect the efficiency of the institution like, loan management and processing system, cash management, and loan repayment performance. This study was conducted with the aim of analyzing the factors that influence Banks loan repayment performance, specifically in omo bank in Wolkite town using primary data collected through a self-administered questionnaire. This study intends to assess the factors affecting the loan repayment performance of the beneficiaries of omo bank. In order to achieve this objective, the study was adopted a mixed research approach. Primarily data were collected from 20 institution employees holding different positions with using a self-administered questionnaire. For the data analysis, descriptive statistics including percentages, median and standard deviation were used to assess or described the phenomena that influence repayment rates.

The findings of the study show that credit term, credit monitoring, collateralized loan and loan supervision by the institution assign as the causes of nonperforming loan.

ACRONMY

CBE	Commercial Bank of Ethiopia
DBE	Developmental Bank of Ethiopia
MFIs	Microfinance Institution
NBE	National Bank of Ethiopia
NEM	New Economic Model
NEP	New Economic Policy
NGO	Non-Governmental Organization

LIST OF TABLES

Table of Contents

CHAPTER ONE

INTRODUCTION

1.1) BACKGROUND OF THE STUDY

Commercial banks are those institutions that provide credit, saving, and other services for those who are productive borrowers. The formal and informal sectors are the principal sources of finance for any investment or business that can be undertaken at micro, small-scale, and large-scale levels in an economy. The major financial institutions in the formal financial sector in Ethiopia are the commercial bank of Ethiopia (CBE) and the development bank of Ethiopia (DBE).

SOLOMON (2006) noted that the banks serve big businessmen and disregard poor households and bankable many small-scale credit-worthy businessmen with viable investment ventures are denied access to institutional credit because they couldn't afford the required collateral. He also indicated that" overall; the prevailing operation of the formal financial institution in many low-income countries such as Ethiopia is inefficient in providing sustainable credit facilities to the poor. Regarding the delivery of financial services access to institutional credit was very limited in Ethiopia. Because of this limited access, most of the poor get financial services through informal sources like money lenders, Iqub, Idder, merchants' friends and relatives, etc. The formal financial sources have not interested in delivering credit to the poor. Commercial banks such as Omo bank plays an important role in equally serving poor borrowers as when they purposely need to be productive.

Omo bank was initially established in October 1997 e.c by getting license from National Bank of Ethiopia as a micro finance intermediary share company in April 1997 and began its work by providing micro-credit services for those poor's who are biased by the major financial institutions (i.e., CBE&DBE) to alleviating poverty and stimulating the region's economic growth and promoting sustainable financial services, both operational and financial. In September 2014 Omo was transformed from microfinance to bank.

A loan is debit evidence that specifies among other things the principal amount and interest rate and the date of repayment. Its loan entails the revocation of subject aspects for a period of time between the lender and the borrower. In practice, any material object may be lent. Acting as the loan is one of the principal tasks of financial institutions issuing debt contracts such as a bond is the typical source of funds.

Credit is recognized as an important financial service that contributes to the success of the business venture. This successful intern believes to contribute towards economic development. However, the existence of credit facilities alone does not necessarily result in supporting economic development unless, and other ways, it will be accumulated by the existence of conductive to the efficient utilization of credit funds. Loan recovery is the main factor to determine the quality of loan assets of financial institutions. Lower recovery indicates erosion of the institution's effectiveness to provide the expected services.

Repayment performance is a critical feature of credit because persistent or continuous poor payment ultimately leads to financial failure in any hand or financial institution.

Different factors can hinder the loan estimated recovery performance of Omo bank that should be investigated for the precaution of the institution.

1.2) STATEMENT OF THE PROBLEM

Lending represents the typical services banks provide for productive borrowers. Loans are the dominant asset and represent 50-75% of the total amount at most banks, generate the largest share of operating income, and represent the institution's greater risk exposure Mac Donald & Koch, (2006). Moreover, its contribution to the growth of any country is huge in that they are the main intermediaries between depositors and those in need of funds for their variable projects thereby ensuring that the money available in the economy is always put to good use. Therefore, managing loans in a proper way not only has a positive effect on the bank's performance but also on the borrower firms and the country as a whole. Failure to manage loans, which make up the largest share of the institution's assets, would likely lead to the way of a high level of non-performing loans. A whole credit is generally accepted, is put to productive use, and results in a good return. But credit provision is such a risky business that, in addition to other reasons of varied nature it may involve fraudulent and opportunistic behavior.

TESHALE B.(2010) argues that default problems destroy lending capacity as the flow of repayment declines transferring lenders into welfare agencies, instead of a viable financial institution, it incorrectly penalizes credit-worthy borrowers whenever the screening mechanism is not efficient. Loan default may also deny new applicants' access to credit as bank cash flow management problems arguments in direct proportion to the increasing default problems.

Many studies find out different factors that determine loan repayment performance among bank's borrowers give mixed and overlapping results. External factors such as the economic, political, and business environment in which the borrower operates are important determinants of loan repayment (BELAYNEH, 2006). Moreover, in exploring bank repayment problems in the informal sector found that repayment capacity increased with education level. Addisu also found that borrowers who planned their business activities in advance or who had prior experience were least likely to default in their loan repayment. In contrast, they found that the levels of monthly sales were directly related to the non-repayment of loans. IBRAHIM (2003) in their study on determinants of loan repayment performance in Bahir dar town identify loan size, age of beneficiaries, household size, and the number of years of formal education and occupation as the key predictors of loan repayment.

As explained above different findings have been conducted about the factors affecting loan repayment performance. Most of the studies are concentrated on credit associated with agricultural activities and it identifies socio-economic factors that affect loan repayment performance mostly in rural areas. In the literature review nothing has been seen about urban areas. So, in this study the main focus is on the urban area borrowers.

1.3) OBJECTIVE OF THE STUDY

1.3.1) GENERAL OBJECTIVE

The general objective of this study is to assess the factors that affect the loan repayment performance of Omo bank.

1.3.2) SPECIFIC OBJECTIVE

Specifically, the research tries to address the following objectives:

- To assess the role of credit terms on the loan repayment performance.
- To find out the relevancy of collateralized loans on the non-performing loan.
- To investigate the function of loan supervision in the repayment performance of borrowers.
- To identify the role of credit monitoring on loan default.
- To see whether the institution effectively collects its loan on time or not.

1.4) RESEARCH QUESTION

This Study Tries to Address the Following Question:

1. What are the difficulties and challenges faced by lenders during the repayment process?
2. What are the incentive mechanisms used by the bank to motivate clients who borrowed repeatedly?
3. What are the role of credit term on the loan repayment performance?
4. What are the role of credit moitoring on loan default?

1.5) SIGNIFICANCE OF THE STUDY

As explained earlier, targeting credit to the poor is one of the several instruments of alleviating poverty. Banks are engaged in providing credit so that they can generate income and employment for themselves. For these institutions to be able to render such a service on a permanent basis, they should be viable and sustainable. They should not depend on donations or subsidies in the long run.

This requires an efficient loan repayment performance as well as an impact to be observed on the target beneficiaries.

Although some studies have been conducted on the credit schemes that targeted the poor in Ethiopia, no empirical study has been done on the financing operation of the Omo bank wolkite branch so far. So, this study tries to provide a detailed empirical analysis of the factors that affect the loan repayment performance of the Omo bank wolkite branch.

The finding of the study will have important for the manager of Omo bank in the assessment of loan granting procedures of the institution, for the institution's policy maker, for the programmers, for other researchers who want to do on this area, for governmental purpose, the creditworthiness

of borrowers and other interesting parties about the factors affecting the performance of loan repayment in the institution and to suggest possible solutions for the problem.

1.6) SCOPE OF THE STUDY

Even though the sustainability of Commercial bank includes financial, economic, institutional, and borrower viability, this study would focus on only one aspect of it, i.e., borrower viability. Accordingly, the study was focus on factors affecting the loan repayment performance of Omo Bank (such as collateral, loan supervision, and credit monitoring and credit term) which is concerned with the borrowers' viability.

1.7) LIMITATION OF THE STUDY

The study's target population is also specified on only employees that doesn't include the borrowers. This is because of time and financial constraints. In addition to this misunderstanding of questions by respondents and lack of giving correct information is another limitation of the study.

1.8) ORGANIZATION OF THE STUDY

The research paper contained five chapters. The first chapter was an introduction to the paper, including the background of the study, a statement of the problem, the objective of the study, the basic research question, the significance of the study, the scope of the study, and the definition of terms. Whereas chapter two was hold a literature review, chapter three would talk about research methodology, chapter four would deal with data presentation and analysis, and in the last chapter five would present about conclusion and recommendation.

CHAPTER TWO

LITERATURE REVIEW

INTRODUCTION

In this section, the related literature will be presented. It starts from the theoretical foundation of the study. Then it is followed by the theoretical foundation of the study, the emergence of Commercial banks, a brief description of commercial bank in Ethiopia, the impact analysis framework, and factors affecting loan repayment performance are all presented respectively. Finally, empirical evidence which is investigated by different researchers is presented.

2.1 THEORETICAL FOUNDATION OF THE STUDY

Lending is the main function of commercial banks- evidenced by the volume of loans that constitute banks' assets and the annual considerable raise of loan which is granted to borrowers both to private and public sectors of the economy. Lending is the principal business for most commercial banks. Consequently, loan portfolio is the largest asset and source of revenue for banks (Comptroller, 1998). In view of the significant contribution of loans to the financial health of banks through interest income earnings, these assets are considered the most valuable assets of banks. Bank loan is typically the largest asset and the predominant source of income for banks. Since 1963 commercial banks in Ethiopia perform several banking business like attracting all types of deposit and granting loan and advance to borrowers for the sake of increasing their investment capacity. As a result commercial bank plays a great role for the growth of the economy by maintaining three main operating guiding principles, which are profitability, liquidity and solvency. Hence, cash required reserve become an alternative way to maintain banks liquidity. Consequently, national bank of Ethiopia set this requirement. Nevertheless, these policies or requirements are at the center of an intense national debate. There is a world-wide contention on the issue- some researchers believe such requirements promote disintermediation of commercial bank credit while others stand at the opposite. Christian & Pascal (2012), Cargill and Mayer (2006), and Montoro and Moreno (2011) contended that, an increase in reserve requirement case to decrease bank credit. On the other hand Friedman and Schwartz (1963) claim that, a raise in Commercial Bank cash required reserves sources to increase its credit

creation ability. OLUSANYA, et al, (2012) also reveal that, required reserve has positive impact on commercial bank loans and advances. I.e. banks credit raise when cash required reserve increase. Again, MELTZER (2003) reveals that a raise in reserve requirements would have little or no impact on credit supply. CHANDLER (1971) also supports by uttering that an increment in reserve requirements does not encourage banks to hold back their lending or sell securities or cause interest rates to rise. Further, Wilcox (2012) sustains that changes in reserve requirements had only small and statistically insignificant impacts on bank loans and investments. These various approaches have been used to examine the effects of cash required reserve on a broad array of banks credit. However, the evidence is not uniform and consistent in indicating that whether cash reserve affects commercial banks' credits or not a relative handful of studies (like; Chang, 1996, 1999; Wilcox, Olusanya, et al, 2012, Chandler, 1971, Christian & Pascal, 2012, Friedman & Schwartz, 1963) had specifically examined whether the amount of cash reserve requirement effect is positive, negative or no effect on bank loans and advance. Generally, this study aimed to determine the effect of common determinants of commercial banks lending; and thereby, to provide empirical evidence about the effects of cash required reserve on commercial bank credit. As far as the researcher is concerned, there is no a researcher who tried to deal with factors that determine commercial banks lending in Ethiopia.

The link between credit and economic development has captured the attention of economists for a long (SCHUMPETER J.A., 1993). With the improved financial intermediation, the proportion of financial savings that is diverted by the financial system into non-productive uses fails, and the rate of capital accumulation increases for a given saving rate (MENSAH,1999).

A credit market differs from standard markets for goods and services in two important causes. First standard markets, which are the focus of classical competitive theory, involve several agents who are buying and selling a homogeneous commodity. Second, in standard markets, the delivery of a commodity by the seller and payment for the commodity by the buyer occur simultaneously. In contrast, credit received today by a firm in exchange for a promise of repayment in the future. But one person's promise is not as good as another (ADUGNA, 2017).

Promises are frequently broken and there also may be no objective way to determine the likelihood that promise will be kept (JAFEE DAWIT, AND JOSEPH STIGLITZ, 1990). Financial institutions in many developing countries hold a truly alarming volume of non-performing assets. Differences

between promised and actual repayments on loans are the result of uncertainty concerning of the borrower's ability or willingness to make the repayments when they are due which creates the risk of borrowers defaulting (PISCHKE, 1991; VIGANO, 1993; KITCHEN, 1989). The inapplicability of the standard demand and supply model for the credit market gives rise to credit rationing phenomena. Credit rationing as defined by (JAFEE M. DAWIT, 1971) is the difference between the number of loans demanded and loans supplied at the ruling interest rate. In this case, lending institutions make use of their screening criteria to identify credit-worthy borrowers to decrease the probability of default.

2.1.1 THE EMERGENCE OF COMMERCIAL BANKS

Banking originated in an Ancient Mesopotamia where the royal places and temples provided secure places for the keeping of grain and other commodities. In Egypt to the centralization of harvests in state ware houses led to the development of system banking. Written order for the withdrawal of separate lots of grain by owners whose crops had been deposited there for safety and convenience or which had been compulsorily deposited to the credit of the king, soon become used as a more general method of payment of debts to other persons including tax gathers, priests and traders. Even after the introduction of coinage, these Egyptian grain banks served to reduce the need for precious metals which tended to be reserved foreign purchase particularly in connection with military activities .(HTTP://CHESTOFBOOKS.COM/FINANCE/,3/04/2010).

In general the term bank in the modern term refers to an institution having the following features.

- It deals with money; it accepts deposit and advance loan.
- It also deals with credit; it has the ability to create credit.
- Its commercial institution; it aims at earning profit.
- Its unique financial institution that creates demand deposits which serve as a medium of exchange and as a result the banks manage payment system of the country. (HTTP://CHESTOFBOOKS.COM/FINANCE/,3/04/2010).

2.1.2 Types of loan made by Banks

Banks make rarely loans to wide variety customers for different purpose, for purchasing automobiles and buying furniture taking dream, vacation or perusing college educations to constraint home office building.

There are different types of loans given by banks may divided in to different broad categories of loan delineated by their purpose.

1. Real estate loan: which are secured by real property land buildings other structures and included short-term loans for construction and development?

2. Financial institution: includes credit to bank, insurance companies, finance companies and other financial institution.

3. Agricultural loan: extended to form and care of livestock.

4. Commercial and industrial loan: granted to business to cover such expense and purchasing inventories paying taxes and meeting payrolls.

5. Loans to individuals: including credit finance the purchase automobiles, mobile home.

6. Miscellaneous receivable: which includes above loan not classified above including security loan?

7. Lease financing receivable: whether the bank buys equipment or vehicles and leases them to its customers.

8. Domestic trade and service from loan: types of loan have been granted for these that participant in domestic trade source for supporting working process in trade service (Ross, 1999).

9. Startup loan: one types of loan that is often granted (provided) to business by Dashen bank. This loan gives business capital to stating business premises or the loan might be a secured based on the purchase business this credit worthiness of the person starting the business. This money be used to build as or front acquire inventory or pay franchise fee to get business rousing (HTTP://WWW.SMALLBUSINESS.COM).

According to S, ROSE (1991), Loan is an investment comparable to the bond stock or other assets. Loan is labiality for individual. But an assets or providing like banks loan are typically less liquid than other asset.

If the bank makes one-year loan it cannot beget until the loan comes within one year (Miskin;1998), The loan is arising from negotiation between the bank and its customer and it's a writer's agreement designed to meet the specific credit needs of customers (MACDONALD,2003). The distinguish features of the loan is interest on its payable on the entire amount. It is fully utilize or not granted for defined period and the borrowers is given facility to replay it in one lump sum of installment as fares bank concerned the operating cost of the loan is lower as compared to a cash credit or an overdraft.

Loan is frequently called the life blood of business" and it is true if we ponder over the function of performed by loan and modern time (MACDONALD; 2003), some of the benefits of loan contribute to the economy are follow: -

- Loan provides a convenient and economical medium of exchange by supplementing or supper sending of form of money.
- Loan facilitates the production and exchange of goods and services in the economy.
- Loan also increase consumption through installment credit consumer are enable to enjoy consumption of large of goods.
- Loan makes the optimize of economy's capital resource through the use of loan not only are they found formed together.
- Loan enables the financial system to lender. It is sold services by providing system to exchange and system of capital supply.

2.1.2 BRIEF DESCRIPTION OF COMMERCIAL BANKS IN ETHIOPIA

Modern banking in Ethiopia was introduced in 1905. At the time, an agreement was reached between Emperor Menelik II and a representative of the British owned National Bank of Egypt to open a new bank in Ethiopia. February 15, 1906 marked the beginning of banking in Ethiopia history when the first Bank of Abyssinia was inaugurated by Emperor Menelik II. It was a private bank whose shares were sold in Addis Ababa, New York, Paris, London, and Vienna (NBE 2010). In 1931, Emperor Haile Selassie introduced reforms into the banking system and

the Bank of Abyssinia was liquidated and became the Bank of Ethiopia, a fully government owned bank providing central and commercial banking services until the Italian invasion of 1936. During the Italian invasion, Bank of Italy was formed a legal tender in Ethiopia. In 1943, after Ethiopia regains its independence from fascist Italy, the State Bank of Ethiopia was established, with two departments performing the separate functions of an issuing bank and a commercial bank. In 1963, these functions were formally separated and the National Bank of Ethiopia (the central and issuing bank) and the Commercial Bank of Ethiopia are formed. In the period up to 1974, several other financial institutions emerged including the state owned as well as private financial institution. Further, as per the NBE (2010), following the declaration of command economy by Dergue regime in 1974 the government extended its control and nationalized all of previously established private banks and merged into one bank. After nationalization the Dergue regime leave only three government banks; the National Bank of Ethiopia, the 4 Commercial Bank of Ethiopia and agricultural and Industrial Development Bank (Mortgage Bank). This was reversed when the socialist regime was overthrown in 1991. Subsequently, the licensing and supervision of Banking Business Proclamation No. 84/1994 was issued in 1994 which led to the beginning of a new era for Ethiopia banking sector. Following the enactment of the banking legislations in the country in the 1990s, a fairly good number of private banks have been established. For example, in the 2010/11 fiscal year the total number of banks already operational in the country reached fifteen. Of these banks, twelve were private and the other three were government owned. There is also a sign of interest in establishing other new banks by different individuals and groups. Accordingly, at present, there are at least four banks under the process of establishment through issuing their shares. Currently commercial banks work for profit and the NBE controls and gives license for commercial banks. (National Bank of Ethiopia Quarterly Bulletin; September 2010)

2.1.3 FACTORS OF LOAN REPAYMENT PERFORMANCE

Loans constitute the primary source of income for any commercial banks. As with any business establishment, the institution also seeks to maximize its profit. Since loans are more profitable than any other assets, the institution is willing to lend as much of its funds as possible (AYALEW AND EPHREM). However, institutions have to be careful about the safety of such advances. Institutions naturally try to balance the issue of maximizing profit by lending and at the same

time manage the risk of loan default as it would impair profit and thereby the very capital. Thus the institution needs to be Cautious in advancing loans as there is a greater risk that follows it in a situation where the loan has defaulted. Generally, in developing and underdeveloped countries, the reasons for default have multidimensional aspects (ADUGNA, 2017). Many researchers have concluded many reasons for loan default. Literature categorizes determinants of loan repayment performance. The following paragraphs discussed the determinants of nonperforming loans.

Credit term

The institution's credit term affects repayment performance. If there is strong care made a strong negotiation between the institution and their clients about the credit term the institution faces a little loan default or non-performing loan. In his study (ABRAHAM, 2004) conducted on the Oromia credit and saving share company evidence that non-performing loans are determined by a credit term. And also who studied in other financial sectors like a commercial bank in Ethiopia investigated that credit term is one of the determinants of nonperforming loans (SAMUEL, 2006). Other studies find out the borrower's poor knowledge of credit terms as terms cause loan default (studies in commercial banks and other financial institutions in India).

Collateral

Collateral is also known as guaranty which is an asset that a borrower pledges to the institution to compensate the institution's risk at the time of loan default (SINKEY, 2002). It is something valuable that is pledged to the institution by the borrower to support the borrower's intention to repay the money advance. Guaranty is taken to compensate for the institution's risk at the time of loan default, and is considered a Secondary source of repayment (KOCH & MACDONALD, 2003). The purpose of security is to reduce the risk of granting credit by increasing the chances of the lender recovering the amounts that become due to the borrower. Security increases the availability of credit and improves that credit terms on which credit is available. The offer of security affects the lender's decision whether or not to lend, and it also changes the terms on which he is prepared to lend, typically by increasing the amount of the loan, extending the period for which the loan is granted, and lowering the interest rate. The reasons why security is needed by the institution are:

- To assure the borrower's full commitment to their operation.
- To provide insurance for the borrower's default.

- To protect the borrower's deviation from the normal course of action (AYALEW AND EPHREM, 2016).

Credit Monitoring

Lending decision is made on sound credit risk analysis /appraisal and assessment of the creditworthiness of borrowers. But past records of satisfactory performance and integrity are no guarantee future, though they serve as a useful guide to project trends in performance (ADUGNA, 2017). Loans granted based on sound analysis might go bad because the borrower may not meet obligations per the terms and conditions of the loan contract (MEQUANINT, 2018). It is for this reason that proper monitoring is essential. Monitoring deals with the following important aspects:

- ✓ Ensuring compliance with terms and conditions.
- ✓ Knowing the ultimate use of approved funds.
- ✓ Assessing performance to check the continued viability of operations.
- ✓ Detecting deviations from the terms of the decision.
- ✓ Making a periodic assessment of the health of the loans and advances by noting some of the key indicators of performance that might include: profitability, activity level, and management of the unit and ensuring that the assets created are effectively utilized for productive purposes and are well maintained.
- ✓ Ensuring recovery of the installments of the principal and interest in case of the term loan as per the scheduled repayment program.
- ✓ Identify early warning signals, if any, and initiate remedial measures thereby averting possible default (ADUGNA, 2017).

Loan Supervision

Supervision is the follow-up of the institution for the borrower about whether they are in the right way operating their business or other determining operation for the provision of the loan. There are three major types of loan follow-up. These are physical follow-up, financial follow-up, and legal follow up each discussed below.

***Physical follow-up**:*

Physical follow-up helps to ensure the existence and operation of the business, the status of collateral properties, the correctness of declared financial data, quality of goods, conformity of financial data with other records (such as taxes, register books), availability of raw materials, labor situation, marketing difficulties observed, undue turnover of key operating personnel, change in the management set up among others.

Financial Follow-up:

Financial follow-up is required to verify whether the assumptions on which lending decisions were taken continue to hold good both regarding borrowers' operation and environment and whether the end use is according to the purpose for which the loan was given (ADUGNA, 2017).

Legal Follow-up:

The purpose of legal follow-up is to ensure that the legal recourse available to the institution is kept alive at all times. It consists of obtaining proper documentation and keeping them alive, registration, and proper follow-up of insurance. Specific issues about legal follow-up include: ascertaining whether contracts are properly executed by appropriate persons and documents are complete in all aspects, obtaining revival letters in time (revival letters refer to renewal letters for registration of security contracts that have passed the statutory period as laid down by the law), ensuring loan/mortgage contracts are updated timely and examining the regulatory directives, laws, third party claims among others (ADUGNA, 2017).

2.2 EMPIRICAL LITERATURE

Loan repayment performance is affected by several socioeconomic and institutional factors. While some of the factors positively influence loan repayment, other factors are negatively affecting the repayment rate (TEFERA,2020). Regarding the loan repayment performance of borrowers, several studies have been conducted in many countries by different authors. Some of the studies are mentioned below.

When one goes through the bulk of the literature on the impact of banks, one can find quite different results, which are generally inconclusive. In some cases, banks are said to have brought positive impacts on the life of the clients. A growing database of empirical studies shows that banks have positive impacts to boost the ability of poor people to improve the conditions in which they live. Research works indicate that the poor have taken advantage of increased earnings to enhance consumption levels, send their children to school, and build assets. In some

other instances, bank is said to play an insignificant role in mitigating the problem of the poor. But looking at the positive impacts, many studies indicate that banks allow people to increase their incomes by starting new enterprises or expanding existing ones. The argument is that through diversified sources of income, people could be able to shield themselves against external shocks. PITT and KHANDKER (1998) indicated that bank has brought positive marginal impacts on consumption in Bangladesh. They showed that banks have become a promising strategy to shield the poor from vulnerability through consumption smoothing as well as building assets. Using the assumption of perfect targeting, KHANDKER (1998) estimated that for every 100 takas lent to a woman and a man, household consumption increased by 18 takas and 11 takas respectively. He indicated that moderate poverty and ultra-poverty were reduced by 15% and 25% respectively for households in BRAC. The rate was even lower for old borrowers than for new ones. This is to mean that number of loans was found to be important in impacting the lives of clients positively. Strengthening this assertion, Montgomery et al (1996, cited in Zaman, 2001) pointed out that third-time borrowers were found to get higher incomes and register growth in their enterprises. MUSTAFA ET AL (CITED IN ZAMAN, 2001) also found out that older borrowers were found to have greater asset values and household expenditures on average than new borrowers. Using the same data as Khandker did, Murdoch (1998) did not find the same result. Morduch noted that Khandker's eligibility threshold was flawed. Thus, he used an alternative approach and corrected for the selectivity biases. Eventually, he did not find evidence to suggest that banks can reduce poverty per see. Using the difference-in-difference strategy, he found out that bank has proved to be a viable tool for reducing vulnerability showing that consumption variability was 47%, 54%, and 51% lower for eligible Grameen, BRAC, and BRDB households respectively. However, he indicated the difficulty he faced to show whether bank could increase consumption levels or schooling as compared to control groups in contrast to what Khandker indicated.

(SAYED AND IZADIN, 2015) studied on the impact of banks on poverty reduction: empirical evidence from a Malaysian perspective. In order to analyze the impact of bank on poverty reduction, they employed a scientific approach to impact assessment methodologies such as randomized control traits and quasi-experimental are important to assess the impact of banks intervention. For the use of a new client as the control group, a survey of 780 women was conducted. Four separate samples were drawn using a random multi-stage cluster design to include fourteen districts from two provinces of Malaysia namely Selangor and Melaka. The four groups consisted of old

members from urban Selangor and Melaka. this study suggests that bank has the ability to contribute significantly to the achievement of new economic policy and new economic model that guide the achievement of the Malaysian 2020 vision to become a fully developed nation. It does so, by enhancing the socioeconomic well-being of poor and low-income people, especially women. It also plays a central role in creating jobs for women especially those with low education. Thereforebank opens an opportunity for women borrowers to play a significant role in economic development. Despite of significant impact OF (AIM) on household income, a large number of the old client have the Malaysian government as well as the (AIM) in how to transform the strategy of socioeconomic well-being from relying on credit as a source of income to build their capacity.

(Abimola, and Kolawe, 2021) study on the factor influencing Loan Repayment Performance of Nigerian Microfinance Banks. The research was conducted in Oyo and Osun states, Nigeria. The states are an integral part of South West, Nigeria. The choice of the two states is predicated upon their large population. Two MFBs were purposively selected from Oyo and Osun states making a total of four selected MFBs. The MFBs in the Osun States are Legend MFBs and Ilobu MFBs while La Fayette MFBs and Lapo MFBs were selected from Oyo State.35 respondents who are customers of the banks for more than five years were purposively selected, making a total of 140 respondents. Moreover, 5 credit officers with more than five years of banking experience were also purposively selected from each MFB. Data were obtained from primary sources through well-structured questionnaires and distributed to the respondents; however, only 124 questionnaires were returned. Meanwhile, analysis was done by using descriptive statistics and multiple regression analysis techniques. As a result, this research investigated the factors affecting loan repayment rates among MFBs in South West Nigeria. Specifically, the effect of socio-economic factors on loan repayment rate was examined and the effect of MFBs characteristics on loan repayment performance was analyzed. Findings showed that three of the socio-economic variables which are age, educational level, and average monthly income of the respondents significantly influence loan repayment rate. However, the coefficients of gender and household type, though positive did not exert a significant effect on loan repayment rate. Furthermore, results revealed that MFBs characteristics in terms of loan size, interest rates, repayment mode, and period have significant effect on loan repayment performance. Therefore, it is recommended that interest rates should be reduced drastically so as to reduce loan default

among borrowers. Also, loan repayment period should be made longer so that borrowers would be able to use the loans judiciously in order to enhance loan repayment performance.

(BERHANU A., 2005) Studied on the determinants of loan repayment performance of smallholder farmers in North Gondar, Ethiopia. In order to analyze the factors that affect loan repayment, he employed the probity model. A total of 17 explanatory variables were considered in the econometric model. Out of these seven variables were found to significantly influence the repayment performance. These were land holding size of the family, agro-ecology of the area, total livestock holding, number of years of experience, number of contacts, sources of credit and income from off-farm activities. The remaining variables (family size, distance between main road and household residence, purpose of borrowing, loan amount and expenditure for social festivals) were found to have insignificant effect on loan repayment performance of smallholder farmers

(ABAFITA, 2003) Analyzed the microfinance repayment performance of Oromia credit and saving institution in Kuyu, Ethiopia. The data used in this study are primary and cross-sectional in type and cover six rounds of loans. The data were collected using a structured questionnaire that was administered with the help of trained enumerators. According to his finding; sex, loan size and number of dependents are negatively related to loan repayment. On the other hand, age was found to be positive, while age squared turned to be negative. Income from activities financed by loan, repayment period suitability and loan supervision are positively and significantly related to loan repayment performance. Moreover, loan diversion is significant and negatively related to loan repayment rate. The negative sign implies that the use of diverted funds for non-income generating purposes.

(ASSEFA B.A., 2002) Employed a logit model to estimate the effects of hypothesized explanatory variables on the repayment performance of rural women credit beneficiaries in Dire Dewa, Ethiopia. Out of the twelve variables hypothesized to influence the loan repayment performance of borrowers, six variables were found to be statistically significant. Some of these variables are farm size, annual farm revenue, celebration of social ceremonies, loan diversion, group effect and location of borrowers from lending institution.

(ABREHAM G., 2002) Studied on the loan repayment and its determinants in small-scale enterprise financing in Ethiopia around Zeway area. The estimation results employing Tobit model. He is found out other sources of income, education, and work experience related economic activities before the credit are enhancing loan repayment. Whereas extended loan repayment period is influencing the repayment performance negatively.

2.3 summary and knowledge gap

As explained above different findings have been conducted about the factors affecting loan repayment performance. Most of the studies are concentrated on credit associated with agricultural activities and it identifies socio-economic factors that affect loan repayment performance mostly in rural areas. In the literature review nothing has been seen about urban areas. So in this study the main focus is on the urban area borrowers.

CHAPTER THREE

RESEARCH METHODOLOGY

INTRODUCTION

This chapter describes the methodology that is used in order to conduct the study. It describes the types of methods selected for data collection and analysis and the reasons for why this method is chosen. This chapter includes description of the study area, research design, research approach, source and method of data collection, target population and sampling frame, sampling technique and the sample size, methods of data analysis, and data collection instruments.

3.1 RESEARCH DESIGN

The research methodology begins by presenting the overall research design, as the research design is a design that provides an important framework & guidelines on how to collect and analyze data. The choice of appropriate research design helps the researcher to answer the research *questions* and to satisfy the research objectives. Therefore, it is a paramount to properly define and evaluate the research design before conducting the research. Research design is a plan of collecting and analyzing data in an economic, efficient and relevant manner. It makes research projects as efficient as possible and help to yield maximum information with minimum expenditure, time and effort. The type of research design is exploratory research design, Explanatory research design, and Descriptive research design. Descriptive research design is a type of research design that concerned to describing the characteristics of particular individual or of a group. Therefore, the researcher used descriptive research design easy to understand and interpret data.

3.2 RESEARCH APPROACH

There are three basic research approaches; these are quantitative, qualitative and mixed research approaches. The qualitative research approach tells the story of particular groups experience in their own words and focus on narrative. The quantitative research approach relies on the measurement and analysis of data to produce quantifiable conclusions (Creswell, 2009).In this research the researcher were used mixed research approach. It involves collecting and analyzing

information from various sources, such as interview, observations, focus groups and surveys. This approach allowed a researcher to explore concepts and experiences in more detail.

3.3 DATA TYPE AND METHODS OF DATA COLLECTION

There are two type of data source such as primary and secondary data. The study used primary data sources. Primary data are that information gathered by researcher himself from the field of study directly and are gathered for the first time, thus, happening to be original.

The questionnaire would be both open-ended and close-ended type which is administered to the sample respondents of study area.

3.4 POPULATION OF THE STUDY

In this part the target population, sampling technique and sample size of the study would be discussed.

3.4.1 TARGET POPULATION

According to (JOSEPH, G. & MERTEZ, F., 2003) population is a group of items that a sample had been taken from.

The target population of this research was the whole employees of Omo bank.

3.4.2 POPULATION SIZE

The study populations were drawn from omo bank professionals who are working in Wolkite town. 20 professional employees are working on the bank.

Their number is convenient to take all of them as respondents, because of this the researcher would use a census survey.

3.5 METHODS OF DATA ANALYSIS

The method of data analysis depends on three main issues. These are the knowledge of the researcher, the objective of the study, and the measurement of the data. Accordingly, this study would use both qualitative and quantitative methods of data analysis. In this study, quantitative data utilizes the descriptive statistics such as median, and percentages. Tables used to present

qualitative data used to analyze through the simple qualitative description of the loan for the repayment performance of the institution.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

In the previous chapter the research methodology contained sub topics such as research approach, research design, population and sampling technique and methods of data collection and analysis used in the study has been presented. In this chapter the results and analysis of the data collected through a questionnaire is present.

4.1 SURVEY RESULTS

The questionnaire was distributed for the whole employee of the organization (including the management department, loan approval section i.e. loan officer or account officer, auditor, and other service department employees in omo bank in wolkite town.

The questionnaires that were physically distributed are about 20 for the institutions employees. Out of the whole 20 distributed questionnaires 18 were completely collected. Therefore the response rate is 90.00%.

Table 4.1: survey response rate

Total Population size	20
Completed and collected questionnaires	18
Response rate	90.00

Source: *survey outcome of 2023*

Table 4.2 the role of collateralized loan and nonperforming loan

	Strongly agree (%)	**Agree (%)**	**Neutral (%)**	**Disagree (%)**	**Strongly disagree (%)**	**Median**	**Standard Deviation**
Collateralized loans perform well in the institution	33.30	44.40	16.70	5.60	-	2	0.873
Collateralizing loans help to protect loan default	61.10	22.20	11.10	5.60	-	1	0.916
Most of the time	33.30	27.80	22.20	11.10	5.60	2	1.227

non collateralized loans are defaulted							

Source: *Survey outcome 2023*

Collateral (also known as warranty) is the asset that borrowers pledged for the institution to compensate the institution's risk in the time of loan default (Sinkey, 2002), and it is considered as a secondary source of repayment (MacDonald, 2003).

In the table 4.2 above I observed that 44.4% of respondents were agreed that collateralized loan is performed well in the institution. As a result this study has got knowledge that institutions are not granting loan without any collateral. Besides 33.30% of the respondents are strongly agreed that collateralized loan is performed well in the institution and only 5.60% of the population disagrees on that. The survey result of this study shows 61.10% (with median 1 and standard deviation 0.916) of the respondents were strongly agreed that collateralized loan is help to protect loan from default. As a result, the study reaches on an understanding that since the properties of the borrower's such as home, automobile and other furniture are behind them as collateral and become sold if they default to repay the loan and have no any other way to repay the lender, they repay the loan with compliance to the agreement. So collateral (warranty) is used to reduce the risk of granting a loan by increasing the chance of the creditor recovering the amounts that become due to the borrower. Moreover, 22.20%, 11.10% and 5.60% of the respondents are strongly agree, neutral and disagree respectively that collateralized loan helps to protect loan default.

Table 4.3 Factors indicating credit monitoring and loan default

	Strongly agree (%)	**Agree (%)**	**Neutral (%)**	**Disagree (%)**	**Strongly disagree (%)**	**Median**	**Standard Deviation**
Strict monitoring ensures loan performance	50.00	38.90	11.1	-	-	1.5	0.698
Loan follow up is directly related to occurrence of nonperforming loans	33.30	44.40	5.60	5.60	11.10	2	1.295

Institutions with higher effort for loan monitoring have lower non-performing loans	55.60	33.30	5.60	5.60	-	1	1.029

Source*: Survey outcome 2023*

Based on the result of my survey in table 4.3, 50.00% (median 1.5 and standard deviation 0.698) of respondents are strongly agree that strict monitoring is believable to ensure the institutions loan performance. In other ways the respondents that agreed and neutral that strict monitoring is believable to ensure the institutions loan performance are 38.90%,11.10% and respectively.

From this the study has got a knowledge that if the institution monitors their borrower's property and give an attention for the borrower what are they have been doing by the money they borrow from the institution and giving an announcements about the system how to utilize the money they borrowed and give warning sign if they use the money for unintended purpose since the borrowers are on the good performance to repay their loan.

The institutions have many possible alternatives to monitor the borrowers. Amongst this one of the best methods is visiting to understand the progress of the borrower's business operation and giving an advice as necessarily important, and 44.40% the respondents (median 2) agree that loan follow up is also is a relevant factor for the occurrence of nonperforming loan. Moreover, 55.60% of the respondents of the institution strongly agreed that though credit monitoring needs a higher effort to ensure the repayment performance of loan. And also 33.30%, 5.60% and 5.60% of the respondents are agreed, neutral and disagreed that credit monitoring needs a higher effort of the institution to ensure loan repayment performance. From this the study gets knowledge that effective monitoring of the borrower by the institution got a better repayment performance.

Table 4.4 the relevant of credit term on loan repayment performance

	Strongly agree	**Agree (%)**	**Neutral (%)**	**Disagree (%)**	**Strongly disagree**	**Median**	**Standard Deviation**
Credit term is significant to determine loan	55.60	33.30	5.60	5.60	-	1	0.850

repayment performance in the institution.							
With growth in credit term comes growth on loan default.	55.60	11.10	11.10	16.70	5.60	2	1.392
Borrowers default because they don't understand credit terms well.	11.10	16.70	22.20	38.90	11.10	3.5	1.215
Poorly negotiated credit terms lead to loan non performance	55.60	16.70	11.10	5.60	11.10	1	1.414

Source: *survey result of 2023*

In financial institutions credit term has a significant effect for the occurrence of nonperforming loan (Abreham, 2002). In the table 4.4 above my survey result indicates 55.60% (median 1 and standard deviation 0.850) of the respondents are strongly agreed that credit term is significant to determine loan repayment performance in the institution. And 55.60% of the respondents at median 2 and standard deviation 1.392 are strongly agreed that when the credit term becomes growth the chance of loan default is highly increased. As a result, the study got knowledge that credit term is one of the main determinants for the repayment performance of the institution's loan, and the credit term grows the chance of loan default becomes increase. On the other hand, 11.10%, 11.10% 16.70% and 5.60% of the respondents are agreed, neutral, disagreed and strongly disagreed respectively that with the growth of credit term the chance of loan default becomes increased. Besides, most of the respondents i.e. 38.9% (with a median of 3.5) are disagreed that borrowers default to repay the loan is not related with the misunderstanding of credit term. On the assumption, poorly negotiated credit term leads to loan nonperformance about 55.60% (median 1 and standard deviation 1.414) of the respondents are strongly agreed. Accordingly, if the lenders have a good deal about the credit term for the borrowers, the borrowers are in a better position to pay the debt.

Table 4.5 the significance of loan supervision on repayment performance

	Strongly agree (%)	**Agree (%)**	**Neutral (%)**	**Disagree (%)**	**Strongly disagree (%)**	**Median**	**Standard Deviation**
The institution supervises the borrowers after loan granting	33.30	55.60	5.60	5.60	-	2	0.786
The institution supervises the borrowers before granting loan	22.20	44.40	11.10	16.70	5.60	2	1.195
Loan supervision is relevant for the repayment performance	66.70	33.30	-	-	-	1	0.485
A borrower without loan supervision become defaulted for repayment	55.60	22.20	16.70	5.60	-	1	1.114
Institutions with high supervision faces little nonperforming loan	50.00	33.30	11.10	5.60	-	1.5	0.895

Source: *survey result of 2023*

Loan supervision is the follow up of the institution about for what purpose and how the borrowers are used the money they lend from the institution for the best utilization of money provided as a loan.

From the tale 4.5 above it is observed that 55.60% of at median 2 the respondents are agreed that the institution is supervise the borrowers when the loan is going to granting. From this survey result the study got knowledge that the institution has supervision policy to grant a loan for the creditworthy borrowers. In other ways, 33.30%, 5.60% and 5.60% of the respondents are strongly agreed, neutral and disagreed respectively that the institution supervises the borrowers to grant a loan. Moreover, 55.60% of the respondents (median 1 and standard deviation 1.114) are strongly agreed that a borrowers without any supervision becomes defaulted for repayment and 50.0%

(median 1.5) of the respondents also strongly agreed that the institutions with higher loan supervision faces a little non-performing loan. As a result, the knowledge that the study got from this survey result is if the institution provides a great supervision for the borrowers when they decide to grant loan they have a better performance for the repayment of loan wisely.

Difficulties that faces during the repayment period

As the respondents tell there are different difficulties that face during the period of repayment. Those are borrowers used the loan they get from the institution for unintended purposes such as ceremony, wedding clothing and others. Due to this they cannot be profitable rather than being the owner of much accrued debts and they cannot pay the loan properly based on the agreement. And other difficulties that face during the repayment the repayment period are

- ✓ Unwillingness of borrowers to pay their loan.
- ✓ Due to little knowledge of borrowers about the amount interest paid they are not good to repay the principal with its interest.
- ✓ They have bad feelings with the institutions during the due date of the loan.
- ✓ Generally borrowers are not good to repay their loan timely.

Incentives made by the institution for those who are creditworthy borrowers

Respondents say different things about the incentives made by their institutions for those creditworthy borrowers. Some of these are:

- ✓ Getting a trust by the institution.
- ✓ Granting a loan as the amount they want.
- ✓ Get a loan at any time they want.
- ✓ Provide a loan by grouping collateral and also without any collateral.
- ✓ Appreciating them by different awards and so on.

To sum up, all the respondents says about the institution's loan system it is a poor oriented to make the productive borrowers being achievable and self reliant. It is also backed by collateral for the warranty of institution's risk due to the borrowers default to repay their loan. The respondents also say that the institution is the cornerstone for the development of the country's economy by providing a loan service for any intelligent and productive borrowers.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 CONCLUSION

The general objective of this research is identifying the factors that affect loan repayment performance mostly related with credit. A number of specific research questions are developed based up on the general objective of the research. In order to accomplish this general objective the research used mixed approach. Mostly it uses a self administered questionnaire for the purpose of obtain a primary data from the targeted respondents. According to the respondents view the result of the study showed that there are most likely occurrence of effects that affect loan repayment performance of the institution. It is presented bellow.

- This study find out collateral is one among the main requirements for assuring the lending institution's repayment performance of loan provided for the clients. Due to this most of the time financial institutions did not grant a loan without any collateral. When the institution have done so it is helpful to ensure the borrowers full commitment, provide as a security if the borrowers are defaulted for repayment, protect the borrowers deviation from performing the planned action at the time of credit extension. Since bounding the borrower with high valuable collateral make a feeling for them not to lose the property due to defaulting to repay their loan. Therefore borrowers become in a good position to repay the debt.
- The institution made a strong negotiation with the borrowers about the credit term since it is one of the possible determinants for the repayment performance of loan. But the borrower's knowledge about the credit term is not the cause for loan default. So as the credit term becomes long it is not the borrower's poor knowledge about credit term rather it is the negligence of the borrowers so, the institution is cautious when there is a growth of credit term since it approaches to loan default.
- In addition, the institution made a strict monitoring to ensure loan performance. The institution monitors the borrower's property and gives an attention what the borrowers have been made by the money they lend from the institution. The institutions have many possible alternatives to monitor the borrowers. Amongst this one of the best methods is visiting to

understand the progress of the borrower's business operation and giving an advice as necessarily important, and encouraging the repayment performance.

- Besides, the institution made loan supervision about for what purpose the borrowers need a loan, how they are going to use the loan and also their productiveness of using a loan. Such supervisions are a key factor for the clients better productivity and the assurance of repayment performance of the institution since the borrowers achievement is also great for little occurrence of nonperforming loan in the institution.
- Finally the study investigate that even if there are some difficulties faced at the time of loan repayment with the borrowers there is also an interesting condition with those credit worthy borrowers who are really productive and achievable and the institution have an incentive mechanisms for such borrowers. Among the incentives some of them are provide a loan without collateral, granting a loan as the amount they want and at any time they want, giving different awards, getting a trust by the institution and so on.

5.2 RECOMMENDATION

Based on the above the research findings and conclusion the following recommendation are suggested.

- The institution should made an assessment on the loan's normality periodically so as to know the indicators of loan performance including profitability, management's level of activity and this ensures the assets which are utilized effectively and for productive purpose.
- Collateral is decisive for the decision of lenders whether to provide a loan or not the institution is better to continue giving more attention on the property (like house, automobile e.t.c) of borrowers taking it as a collateral since it is used to assure the borrowers commitment to pay the debt.
- The institution is also advised to strengthen their attention on monitoring the borrowers attentively as they have done before to make them productive by assessing the businesses intended to operate by the loan which is provided.
- In making the negotiation about the credit term the institution should not be shallow rather it is expected to be strong. Because poorly negotiated credit term leads to the growth of credit term even if the borrowers have knowledge about the credit term which is the indicator of loan default as investigated in the analysis of the research.
- Loan supervision is has a key role for the performance of the institution. This because if the institution supervises the borrower it is easy to know what the borrower intends to operate, and give an advice how to utilize the money they borrowed. By doing so since the

credit is invested on the outlined purpose the borrowers become achievable and there will not be nonperforming. As a result, the institution is ought to strengthen their supervision system than what they have been made before at the time of deciding to provide a loan for the borrowers.

REFERENCES

Abafita 2003. 'Microfinance and loan repayment performance: A Case Study of the Oromia Credit and Savings Share Company (OCSSCO) in Kuyu', MSc thesis, Addis Ababa University, Addis Ababa.

Abimbola, O. ADEMOLA (2021),Understanding the Factors influencing Loan Repayment Performance of Nigerian Microfinance Banks

Abraham. (2004). determinants of loan repayment in oromia credit saving and shre company.

Abreham. (2002). credit term determines the loan repayment performance. A.A.

Abreham G.2002. ϖA 'Loan repayment and its Determinants in Small-Scale Enterprises Financing in Ethiopia: Case of private borrowers Around Zeway Area', M. Sc. Thesis, AAU.

Addisu. (2006). factors affecting loan repayment performance.

Adugna Teshome (2017) ,ASSESSING CREDIT PROVISION AND LOAN REPAYMENT PROCEDURE (THE CASE OF OMO MICRO-FINANCE INSTITUTION, HAWASSA CITY ADMINISTRATION)

Assefa B.A. (2002). Factors influencing loan repayment of rural women in Eastern Ethiopia. Ethiopia, : the case of Dire Dawa Area', A Thesis presented to the school of graduate studies, Alemaya Univeristy,.

Ayalew and Efrem T. (2016), ASSESMENT OF FACTORS AFFECTING LOAN REPAYMENTPERFORMANCE IN BENISHANGUL GUMUZ CREDIT ANDSAVING INSTITUTION IN ADAMA TOWN BRANCH

Belayneh, D. e. (2006). factors affecting loan repayment performance.

Berhanu A. (2005). Determinants of formal source of credit loan repayment performance of smallholder farmers. Ethiopia, the case of north western Ethiopia, North Gondar', M.Sc. Thesis, Alemaya Univeristy, Ethiopia.

Chandler, Lester V. (1971),"American Monetary Policy," New York, Harper and Row.

Comptroller"s Handbook 1998, „Loan portfolio management", Comptroller of the Currency Administrator of National Banks, USA

Friedman, M and Schwarz, A 1963, Monetary history of the United States, Princeton University Press: Princeton.

http://chestofbooks.com/finance/,3/04/2010

http://www.smallbusiness.com

Ibrahim, E. &. (2003). detwrminants of loan repayment performance. Bahirdar

Jaffee Dwight, and Joseph Stiglitz, 1990. Credit Rationing, in Handbook of Monetary Economics, Credit Rationing, in Handbook of Monetary Economics, Vol. II, Ed. By Ben (Vol. Vol. II). (N. H. Ed. By Benjamin M. Friedman and Frank H. Hahn, Ed.)

Khandker, M. (1998). Socio-economic and psychological dynamics of empowerment of GrameenBank and BRAC borrowers.

MacDonald, K. &. (2003). collateral is a secondary source of repayment.

Meltzer, Allan H. (2003)," A History of the Federal Reserve," Chicago, University of Chicago Press, Volume 1 , pp. 1913-1951

Mensah, 1999. Bank Credit provision and Performance Measurement: The Experience of Rural Banking in Ghana,. Masters Thesis 1999.

Morduch J (1998) Does Micro Finance Really Help the Poor? New Evidence From FlagshipPrograms in Bangladesh. Department of Economics and HIID Harvard Universityand Hoover Institution, Stanford University

Olusanya, S. ,Oyebo A., Ohadebere E.(2012),"Determinants of Lending Behavior of Commercial Banks," A CoIntegration Analysis, vol. 5No.5, pp. 71-80.

(Pischke, 1991; Vigano, 1993; Kitchen, 1989). The inapplicability of the standard demand and supply model for credit

Pitt, M. M., and S. R. Khandker. (1998). The Impact of Group Based Credit Programs on PoorHouseholds in Bangladesh: Does the Gender of Participants Matter? Journal ofPolitical Economy, Vol. 06 No. 5. University of Chicago

Sayed Samer and, Izaidin Majid, 2015, The Impact of Microfinance on Poverty Reduction: Empirical Evidence from Malaysian Perspective.

SchumpeterJ.A.,1933. The Theory of Economic Development,. Oxford University press, 1933.

Sinkey. (2002). collateral is used to componset the institution at the time of loan default.

solomon. (2006). smalescale interprise and loan repayment performance.

Tefera b. 2020,Assessment of the Factors that Affecting Borrower's Ability to Repay Loan (In Case of Oromia Saving and Credit Institution in Bale Robe Town)

TESHALE BIRHANU (2010). CAUSES OF DEFAULT IN MICROFINANCE PROGRAMS (A Case Study of DECSI, Mekelle Town)

Wilcox James A. (2012)," Excess Reserves in the Great Depression," working paper 1 (1374).

APPENDIXES

APPENDIXE - 1

Personal profile of respondents

Gender distribution of respondents		
sex	Frequency	Percentage
Male	9	45%
Female	11	55%
Total	20	100%

Educational level of respondents		
Education level	Frequency	Percentage
Certificate	-------	------
Diploma	3	15%
Degree	14	70%
Master	3	15%
Total	20	100%

Age level respondents		
Age level	Frequency	Percentage
18-30	10	50%
30-40	7	35%
40-50	3	15%
Above 50	-------	-----
Total	20	100%

Years of experience in the institution		
Years of experience	Frequency	Percentage
Less than 1 year	8	40%
2-5 years	9	45%
5-10 years	3	15%
Above 10 years	------	------
Total	20	100%

APPENDIX- 2

QUESTIONNAIRE

The purpose of this study is to asses and find out factors affecting Nonperforming loans omo Bank in Wolkite branch. To this end the study intends to gather a relevant information from selected respondents i.e. employees of the institution in different departments through a self-administered questionnaire. The participation is fully voluntary and responses will be confidential. The questionnaire takes about 10-15 minutes to complete. I would appreciate your favorable consideration in completing the enclosed questionnaire.

Part -1 personal information

Circle the appropriate choice

1. Sex A. Male B. female

2. Age A. 18-30 B. 31-40
   C. 40-50 D. Above 50

3. Educational level status A. Certificate C. Degree
   B. Diploma D. Above degree

4. Years of experience in the institution
   A. Less than 1 years C. 5-10 years
   B. Above 2-5 years D. Above 10 years

5. Years of experience in credit
   A. Less than 1 years C. 5-10 years
   B. 2-5 years D. Above 10 years

Part-2 Questions on the factors affecting loan repayment performance

Put your mark as x on your appropriate choice

Please indicate your degree of agreement or disagreement to the statements pertaining to Collateral and the repayment performance

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1 Collateralized loans perform well in the institution					
2. Collateralizing loans help to protect loan default					
3. Most of the time non collateralized loans are defaulted					

Please indicate your degree of agreement or disagreement to the statement Pertaining to credit monitoring and the occurrence of default

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
✓ Strict monitoring ensures loan performance					
✓ Loan follow up is directly related to occurrence of nonperforming loans					
✓ Institutions with higher effort for loan monitoring have lower non-performing loans					

Please indicate your degree of agreement or disagreement to the statements pertaining to credit term and repayment performance

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1. Credit term is significant to determine loan repayment performance in the institution.					
2. With growth in credit term comes growth on loan default.					
3. Borrowers default because they don't understand credit terms well.					
4. Poorly negotiated credit terms lead to loan non performance					

Please indicate your degree of agreement or disagreement on loan supervision and the loans default rate.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1. The institution supervises the borrowers after loan granting.					
2. The institution supervises the borrower before loan granting					
3. Loan supervision has a relevant for the repayment performance					
4. A borrower without supervision becomes defaulted for repayment.					

Part -3 general questions

21, please try to mention the difficulties that faces you during the time of loan repayments

.....

.....

.....

.....

.....

22, what the institution makes for those who are credit worthy borrowers in order to motivate them and also others?

….....

.....

.....

.....

.....

23, what is your assumption about the institutions loan system?

….....

.....

.....

.....

.....

THANK YOU FOR YOUR PARTICIPATION!!!