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**Assessment of Term Loans Collection Performance of Oromia International Bank S.C**

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**A Thesis Submitted in Partial Fulfillment of the Requirement for Award of the Degree of  
Master of Business Administration in Finance**

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## STATEMENT of DECLARATION

I, the undersigned, declare that this thesis is my own work and has never been presented in any other university. I have carried out the research work independently with the support and guidance of my research advisor. All sources of materials used for this thesis have been duly acknowledged.

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**STATEMENT of CERTIFICATION**

This is to certify that the thesis entitled “**Assessment of Term Loans Collection Performance of Oromia International Bank S.C**” was carried out by Abdurhman Dekebo Rabis under the supervision of Abebaw Kassie (PhD) and thus has been submitted as a partial fulfillment of the requirements for the degree of Master of Business Administration concentration in Finance. It complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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**LIST of ACRONYMS**

AAU	Addis Ababa University
BCC	Branch Credit Committee
BUSEXP	Business Experience
BUSTYP	Business Type
COLSTR	Collateral Strength
CRHIS	Credit History
DDLON	Demand for another Loan
HO	Head Office
LONCNT	Loan Contract
LONSZ	Loan Size
LONUTL	Loan Utilization
MFI	Micro Finance Institutions
NPLs	Non-Performing Loans
OIB	Oromia International Bank
SCRN	Screening
SD	Standard Deviation

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## Abstract

*The main objective of this study was to assess successfully collected term loans performance - considering the case of Oromia International Bank S.C (OIB). First-hand data was collected using structured questionnaires from 196 selected samples of survey respondents of same bank employees who directly engaged in day-to-day loan related administrations. A five - point Likert Scale technique was adopted to collect and organize data about factors that can lead to successfully settled term loans performances of OIB. Data analysis was then conducted by employing basic descriptive statistics to examine the relative importance of factors of the study in causing settled term loans performances of OIB. Considering descriptive results of mean and respective standard deviation, the study revealed that business experience of borrowers 4.34(.745), utilization of loan for approved purpose only 4.11(.991), collateral strength 4.02(1.338), business type 3.99(.953), screening 3.99(1.1), credit history 3.95(1.184), demand for other loan 3.74(.904), loan size 3.73(.968), length of loan contract 3.58(.933) and education level 2.68(1.165) were study factors, in that order, that were rated in terms of their relative importance towards leading to settled term loans performances of OIB. To achieve successful term loans collection performance, the study recommends that, after properly screening out risky loan applications, sufficient term loans amount should be extend against adequate repayment periods by focusing on such borrowers that can demonstrate adequate business experiences in running profitable or less risky business sectors, properly utilize loans for the approved purpose only without diverting to other risky purpose, offer strong collaterals relative to the amount of requested loans and also those borrowers that characterized by good truck of credit history in the past.*

**Keywords:** *Settled Term Loans Performance, Relative Importance, Borrower-related factors and loan-related factors.*

## **CHAPTER ONE**

### **INTRODUCTION**

In this chapter, background of the study, statement of the problem, the general and specific objectives of the study, research questions, scope of the study, significance of the study, limitations of the study and organizations of the study were discussed in details. Further, the views of various authors indicated in this paper were assessed and discussed based on the relevance of their respective opinions.

#### **1.1 Background to the Study**

Lending financial institutions must extend successful loans that are paid back in full if they expect to earn high profits. It was argued that understanding the concept of credit worthiness is very important as it encompasses the two very essential aspects related to borrower's characteristics: ability and willingness to repay a borrowed loan as per terms and conditions stipulated in respective loan contracts (Michael, 2018). Borrowers' ability and willingness to repay a bank loan, in turn, can also be achieved through the two economic concepts: adverse selection and moral hazard (William, 2018). To properly manage and hence overcome the adverse selection and moral hazard problems, therefore, lending financial institutions have to follow basic principles that required for managing credit risk that result in successful loans: screening, monitoring, long-term customer relationships, loan commitments, collateral and compensating balance requirements (Frederic, 2011).

One of the commercial bank's lending decisions is to create long-run customer relationship. The relationship determines the probability of customer staying with the bank which, in turn, considered as a function of a loan extended as per customer's request (Pekka, 2005). In order to decide on the provisions of loan requests, Emre (2001) emphasized that lending financial

institutions must collect information on the repayment capacity of their borrowers before and after loan disbursement in the lending process. This process includes information gathered while evaluating the loan and also subsequent information gathered after loan disbursement so as to monitor the borrowers' performances.

### **1.1.1 Loans and Advances Performance of OIB**

According to its Annual Report (2018/19), OIB's total gross outstanding Loans and Advances plus IFB Financing reached Birr 17.4 billion as at June 30 2019, exhibiting a growth of 50% over the position attained at the end of the preceding year. By its loans and advances plus IFB financing, OIB has reached all sectors of the economy despite difference on the share of the sectors. It is followed that regarding the composition of credit and financing, Domestic Trade and Services (DTS) have taken the highest share of 30.6% of the portfolio followed by Export 23.4% share, Construction 12.1%, Industry 10.4%, Import 7.0%, Hotel and Tourism 5.6% and mortgage also 5.3% share during the year.

### **1.1.2 Settled Term Loans Performance of OIB**

In the past six years starting from 01 of July 2013 to 30 of June 2019 (as depicted in the Table - 1.1), the performances of those successfully settled term loans of OIB against different categories of term loans economic sectors reached about 14,044 which approximated to Birr 10,126 billion as compiled from OIB's OMNI system.

**Table – 1.1: Settled Term Loans Performance of OIB during the last 6 Years**

SN	Term Loans (by Sector)	Number of Settled Term Loans	Settled T/Loans (Approximated in Millions Birr)
1	AGRICULTRE TERM LOAN	158	270
2	INDUSTRY-TERM LOAN	173	723
3	DOMESTIC TRADE-TERM LOAN	10,341.00	6,010
4	EXPORT-TERM LOAN	610	657
5	IMPORT-TERM LOAN	761	654
6	CONSTRUCTION-TERM LOAN	1,051.00	1096
7	HOTEL & TOURISM-TREM LOANS	710	567
8	PERSONAL-TERM LOAN	137	45
9	MICRO-FINANCE INSTITUTION-TERM LOAN	101	101
10	MINES,POWER & WATER-TERM LOANS	2	3
	<b>TOTAL</b>	<b>14,044</b>	<b>10,126</b>

*Source: Compiled from OIB Account Opened/Closed System Generated Report – from 01/07/2013 to 30/06/2019.*

Before extending any loan, the primary task of lending institutions is to assure itself that the repayment capacity of the borrowing unit would indeed be materialized first. Following the provisions of loans to borrowers, however, their subsequent repayment performance can be either full settlement or otherwise. The focus of this study was to assess main causes that can be resulted in successfully settled or collected term loans performances - the case of OIB.

## **1.2 Statement of the Problem**

Lending financial institutions must extend successful loans that are paid back in full to have successful settlement of the same if they expect to earn high profits. This signifies the concept of borrowers' credit worthiness which encompasses their ability and willingness to repay a borrowed loan as per terms and conditions stipulated in respective loan contracts (Michael, 2018). Such borrowers' ability and willingness to repay the borrowed loans, in turn, can also be achieved by properly managing adverse selection and moral hazard (William, 2018). To properly

manage and hence overcome the adverse selection and moral hazard problems, therefore, lending financial institutions have to adhere to the following six basic principles that required for managing credit risk that result in successful loans (Frederic, 2011): screening, monitoring, long-term customer relationships, loan commitments, collateral and compensating balance requirements.

The study conducted by Marcelina (2017) in assessing the impacts of social-economic factors on loan repayment performance revealed that there is a significant relationship between business characteristics (including size, age and location), individual borrowers' factors (including the education level, age and experience in borrowing), loan factors (interest rate, loan amount and collateral) and the loan repayment. Furthermore, Abreham (2017) found that factors including sex, income from other sources, monitoring, credit timeliness, repayment time suitability and training adequacy influence loan repayment performance. Still, another study conducted by Florence & Daniel (2014) established that education level, number of dependents, and hobbies were individual characteristics influencing loan repayment. Business characteristics influencing loan repayment were length of operation, management and type of business. Also the lenders characteristics were groups handled, period taken to qualify new members and the criteria used to evaluate credit worthiness.

In these reviewed studies, loan was broadly stated without indicating the category of loan type. Also those studies were concentrated on micro financial institutions which have got different operational as well as marketing strategies as compared to those employed by OIB. This study thus sought to assess the relative importance of factors of the study (borrower and loan-related factors) towards causing successfully settled term loans performances by focusing on one of the commercial banks operating in Ethiopia, particularly the case of OIB. This study therefore

sought to fill such knowledge gap by providing information on the factors that can lead to successfully settled term loans performances of OIB.

### **1.3 Research Questions**

In order to achieve the main objectives of the study, the following research questions were developed:

- a.** What borrower-related factors can lead to settled term loans repayment performance of OIB?
- b.** What loan-related factors can lead to settled term loans repayment performance of OIB?

### **1.4 Objective of the Study**

#### **1.4.1 General Objective**

The main objective of this study was to assess major factors that can lead to successfully settled term loans performances of OIB.

#### **1.4.2 Specific Objectives**

The study attempted to achieve the following specific objectives:

- A.** To assess borrower-related factors such as credit history, business experience, education level, business type and collateral strength that can lead to settled term loans performance of OIB; and also
- B.** To assess loan-related factors such as screening, demand for other loan, utilization of loan for the approved purpose only, loan size and length of loan contracts that can lead to successfully settled term loans repayment performance – considering the case of OIB.

## 1.5 Significance of the Study

Proper credit management process has got a vital role in achieving sustainable provision of loans to customers who are able to fulfill certain eligibility requirements set by lending commercial banks. The provision of loans to the right customers after making adequate due diligence would augment the expectations of having successful loan repayment performance and hence contributes towards the success of that lending institution. Such success prospect can be achieved only if each loan officer, branch managers and member of credit management committee able to clearly identify those success factors that would influence term loans repayment performance and hence contribute towards successfully settled term loans – considering the case of OIB.

Identifications of major factors that would cause successfully settled term loans performance is believed to benefit OIB in order to effectively handle the flows of credit management processes. For instance, the identifications of specific factors that can lead to successfully collected term loans performance would enhance the overall credit management processes in terms of making a well-informed credit decisions that would come into play particularly at the two extremes of loan processing cycle: at pre-loan disbursement and post-loan disbursement phases.

Added to that, the outcome of this study will hopefully assist credit policy as well as loan decision making management of OIB by rating the relative importance of those factors assessed by the study in relation with successfully collected term loans performances of same bank.

Further, the finding of this study believed to add on some new sphere of knowledge to the existing ones so as to have better understanding about factors that can lead to successful term loans collection performances - considering the case of borrowers at OIB.

Still, the study can also help any interested researchers who would like to conduct investigations in connection with the same or any related topics of study by considering the case of any other lending financial institutions.

## **1.6 Scope and Limitation of Study**

### **1.6.1 Scope of the Study**

The study was conducted by considering the repayment characteristics of those borrowers specific to OIB who had successfully been settled their respective borrowed term loans. Also the study was limited and hence grounded basically on some selected factors of interest: borrower-related factors (credit history, business experience, education level, business type and collateral strength) and loan-related factors (screening, demand for other loan, utilization of loan for the approved purpose only, loan size and length of loan contracts) that can lead to successfully settled term loans performance of OIB. By taking into account the objective of this study and also the findings of relevant studies conducted in the past, the study has prioritized some factors of interest that can influence the performance of successfully collected term loans – considering OIB.

### **1.6.2 Limitations of the Study**

This study was also characterized by difficulty to collect first-hand data from widely spread OIB borrowers across the country due to limited time and resource constraints. In an attempt to overcome such constraints, structured questionnaires were developed and distributed in order to collect the required fist-hand data from different OIB staffs operating at various levels (loan officers, credit analysts, loan recovery and follow up officers, branch managers in addition to district and management credit committee) who directly involved with loan administrations.

## **1.7 Organization of the Study**

The major sections of the study were organized as follows: The first chapter tried to introduce the overall background of the study. The second chapter dealt with the review of theoretical and empirical related literatures on the evolution and importance of commercial banks; in addition to factors that can influence repayment performance of borrowers. The third chapter presented the research methodology adopted for the study which includes data collection and data analysis techniques. The fourth chapter discussed about the results of the study findings and then followed by the fifth chapter which presented conclusions accompanied by appropriate recommendations about the study.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

It was argued that there is perhaps nothing more important to a bank than the loans they make. Loans and advances are one of the principal ways through which banks make money. Just as all businesses have got their products to sell, commercial banks also have their own product: money generated by extending various loan products. How? Well, banks make money by taking in funds from depositors and other sources and then lending that money out to borrowing customers. Here, banks generate money in the form of profit which is actually the difference between what interest a bank must pay on deposit to obtain funds and the rate at which it charges borrowers on the loan granted (Bill, 2017).

Meredith (2015) claimed that investment in ones business can also be achieved through the provision of loans, besides own initial capital. The possibility of securing return on investment from any business financed through bank loans, however, can be realized only if that business managed to timely repay its obligations in line with the pre-determined terms and conditions stipulated in a loan contract that duly signed between both parties: the bank and the borrower.

This chapter, thus, deals with both theoretical literatures and empirical studies undertaken by previous researchers relevant to the study on hand. It tried to briefly discuss on such theoretical topics consisting of Principles of Bank Lending Policies, Function of Commercial Banking, Term loans in addition to Major Components of OIB Credit Tasks.

## 2.2 Theoretical Literature Review

### 2.2.1 Principles of Bank Lending Policies

The following are basic principles of bank lending policies which normally come into play when the commercial banks consider the establishment of lending policies for their operations as summarized here under (Jhingan, 2008):

- i. **Liquidity** - this suggests banks only make use of depositors' money for business. These depositors are usually entitled to their funds every time they are in need of the money. Banks lend money for a short term because such money can be withdrawn at any time by the depositors. That is why the banks advance loans on the understanding that they will be repaid within a short time against security that can be easily marketable and convertible into cash at a short notice.
- ii. **Safety** - implies the safety of the funds lent out by the banks must be safe in a sense that the borrower should be able to repay the loan and interest in time at agreed regular intervals without defaults. Essentially, the repayment of loans depends on borrowers' capacity to generate enough funds from business entities and the character of such borrowers. Thus, lending banks should take into consideration the creditworthiness of the borrowers which governs their character, capacity to repay, and financial standing.
- i. **Diversity** -Jhingan (2008) further suggested that banks consider the composition of the loan portfolio in line with the desired diversity of the investment in the process of granting loans to customers. The loans being granted to customers are not normally concentrated in a particular type of sector but in different types of sectors by spreading loans to various industries, firms, businesses and trades. Hence, commercial banks need

to strive to spread risks of investment in loan portfolio by giving out credits to various trades and industries.

- ii. Stability-** Commercial banks only advance loans to customers whose businesses generate stable incomes. Any project, business or any customer that applies for a loan facility should thus be evaluated to determine the possibility of such ventures generating constant income with which to serve the loan and make repayment on regular basis (Jhingan, 2008).
- iii. Profitability-** This is the last principles of bank lending policies indicated by Jhingan (2008) which stated that loans and advances are usually granted with the intention of earning some income for the banks. This income can only be earned by the bank through the interest charges being made from the loans granted to customers. Banks earn income because the interest rate being charged on loans by the commercial banks is normally higher than the rate being charged against customer deposits.

Considering the status of loans repayment performance, loan classifications to international standards, it was announced that banks had to place loans status in one of the following five categories (Shelagh, 2005):

- i. Normal/pass** if the borrower is repaying on schedule;
- ii. Special Mention** if the loan is being repaid but there may be factors which interrupt the loan repayment;
- iii. Substandard** whenever the income from the firm's business is insufficient to service the loan;

- iv. **Doubtful** the case where in the debtor unable to repay the loan and hence the bank may incur losses and
- v. **Loss** if either the principal and interest cannot be recovered or, with legal action, a very small amount happened to be recovered.

According Michael (2018), lending financial institutions must extend successful loans that are paid back in full if they expect to earn high profits. It is followed from a theoretical front that understanding the concept of credit worthiness is very important as it encompasses the two very essential aspects related to borrower's characteristics: ability and willingness to repay a borrowed loan as per terms and conditions stipulated in respective loan contracts. Borrowers' ability and willingness to repay a bank loan, in turn, can also be achieved through the two economic concepts known as adverse selection and moral hazard (William, 2018).

**Adverse Selection** - The idea behind this concept, according to William (2018), suggested the situation of selecting very risky businesses which most likely to default because of the greater possibility that borrowers will be unable to pay back their loans.

**Moral Hazard** – here also it was argued that the possibility of extending loans to borrowers who - once they have obtained the loans - may have incentives to divert those loans to engage in risky and/or undesirable activities that will most likely expose lending institution to hazard of default (William, 2018).

To properly manage and hence overcome the adverse selection and moral hazard problems, therefore, lending financial institutions have to adhere to the following six basic principles that required for managing credit risk that result in successful loans (Frederic, 2011): screening, monitoring, long-term customer relationships, loan commitments, collateral and compensating

balance requirements. The following are brief descriptions of such basic principles suggested by Frederic (2011) for managing credit risk of lending financial institutions as indicated next:

- a. **Screening** is a pre-approval loan process that suggests screening out bad credit risks from the good ones based on reliable information collected from prospective borrowers so as to end up with successful loans.
- b. **Monitoring** is another important principle of credit risk management that deals with information-producing activities undertaken by lending institutions that monitor borrowers' overall business and loan performance after-loan approval.
- c. **Establishment of Long-term Customer Relationships** refers to another way of obtaining information on the basis of borrowers' existing relationship (such as credit history with the lending bank), which actually reduce the costs of information collection and thus make it easier to screen out bad credit risks.
- d. **Loan Commitments** implies a lending bank's commitment to provide a borrower up to a given amount of loans for a specified future repayment period of time which, in turn, promotes a long-term relationship with a borrower and also facilitates the bank with information about that borrower's income, asset and liability position, overall business activities, and so on.
- e. **Collateral Requirements** is another important credit risk management tools representing property promised to the lending institution as compensation in case the borrower defaults. It also as a means to reduce moral hazard because the borrower has more to lose from a default.
- f. **Credit Rationing** means refusing to make loans as per the borrowers' request even though they are willing to pay the stated interest rate or even a higher rate. Such

situation occurs when the lending bank is willing to make a loan but restricts amount of approved loan size compared to the amount requested by a borrower.

### **2.2.2 Repayment Capacity of Borrowers**

Van (2002) indicated that capacity refers to the ability of the borrower to repay the loan. Investment credit which will yield sufficient profit will enable the borrower to repay the loan. The surplus fund that would be resulted from net income after business expenses is used to repay the credit. Most borrowers can easily repay the principal and interest. However, some of them find it hard to repay the principal. Cash flow budgeting technique is used to assess repayment capacity. Van (2002) suggested further suggested good financial management help to improve the repayment capacity and the profitable use of credit in the following manner:

- Extending repayment along repayment time period;
- Planning repayments to coincide with income and
- Planning and running to minimize overhead costs.

## **2.3 Empirical Literatures Review**

### **2.3.1 Empirical Literatures in Ethiopia**

The outcome of another study conducted by Abreham (2017) suggested that independent variables including sex, income from other sources, monitoring, credit timeliness, repayment time suitability and training adequacy were significant and positively influence loan repayment performance of borrowers of microfinance institutions.

Moreover, the finding of the study conducted by Metkel (2017) indicated that better repayment performance is strongly and directly associated with suitability of repayment period and

educational level of the borrower and respectively followed by income financed by the loan, age of borrowers and educational status.

Ayele (2016) was also conducted a study with an objective to identify the determinants of successful loan repayment performance in project financing in the case of DB of Ethiopia. The finding of his study showed that among those explanatory variables including experience, processing time, loan amount, follow-up, equity debt, distance, education, raw material, management and market that were supposed to determine the repayment performance of project financed by DB; variables such as managerial experience of project manager, loan processing time, educational level, and number of supervisions conducted by the bank, project implementation period and type of management have got statistically significant and positive relationship with successful loan repayment performance of the bank in question.

In another study, Fikirte (2011) undertook an investigation to answer basic research questions that, among others, intended to identify and analyze major determinants of loan repayment performance which include socio-economic, business and loan related factors. After analyzing the nature of relationship between loan repayment (dependent variable) and the combined average effect of explanatory variables (individual client-,loan- and business-specific characteristics); Fikirte concluded the following: experience of borrowers, age of borrowers, saving money in the institution by the borrowers, availability of sufficient loan size and also a continued supervision and follow-up found to be the significant factors that determine loan repayment performance of the micro-financing institution of this study.

Godio (2012) also conducted a study with an objective to analyze and identify major determinants of loan repayment in commercial banks. Particularly, the study aimed to answer as

to which factors connected to individual client, socio-economic, loan and business can influence loan repayment performance. Following the study, the researcher identified that the leading causes for poor loan repayment performance of clients include delayed loan approval, inadequate financing, diversion loan, ineffective credit appraisal request and poor monitoring, market problem, young age group, higher cost of doing business, shortage of working capital, improper use of loan against intended purpose, insufficient loan size, delay of loan disbursement and lack of providing training by the bank are found to be the main reasons and challenges faced by the lending bank.

Coming to another study, it is found that the following explanatory variables such as livestock ownership, loan supervision, educational level, loan size amount, income from activities financed by the loan, timeliness of loan release, suitability of loan repayment period, income from other activities, age and loan diversions were found to be statistically significant in determining loan repayment performance of women considered for the purpose of this study (Medhin, 2015).

Referring to another study, Kibrom (2010) investigated borrowers-, project- and loan-related characteristics to identify factors that can contribute towards a successful loan repayment performance of borrowers of Development Bank of Ethiopia. After evaluating the functional relationship between the explained variable (successful loan repayment) and a combined set of the explanatory variables, it is found that educational level of the borrowers, repayment period of the loan, availability of other source of income, business sector, purpose of the loan and type of labour explains successful loan repayment performance of the borrowers positively and significantly; whereas experience is statistically significant but show negative sign.

Mesele *et al* (2016) aimed to identify and analyze those socio-economic, business- and loan-related factors that explain loan repayment performance of the small scale enterprises of the Wolaita Zone Micro Finance Institution (WZMFI). For the purpose of this study, the researchers identified about 15 explanatory variables and an explanatory research method was used so as to quantitatively describe the relationships among explanatory variables and the dependent variable by using both primary and secondary data collected from such area of the study. The result of the study revealed that, out of fifteen explanatory variables included in the model, only six of them such as sex of household, educational status, dependency ratio, tropical livestock unit, value of equipment and repayment suitability were found to be statistically significant. According to this study, it is also found that, the age of respondents negatively and significantly determines the loan repayment performance of borrowers whereas education level determines loan repayment positively and significantly. Also it found that borrowers with small number or no dependants in the household perform better in loan repayment.

Another study also conducted to examine the determinants of loan repayment performance among smallholder farmers living in Kombolcha and Babile districts of East Hararghe zone, Ethiopia (Million *et al*, 2012). The researchers used descriptive statistics and multiple econometric techniques to analyze and investigate the relative importance of major independent variables that supposed to influence loan repayment performance. Out of these explanatory variables, the regression result of the study suggested that agro ecological zone, off-farm activity, production loss, informal credit, celebration of social ceremonies, number of contact days supervised by extension agents, and loan income ratio are appeared to be important factors that determine loan repayment performance of small holder farmers in the study area.

Dula (2016) conducted a study with the objective to identify socioeconomic factors that influence loan repayment status of borrowers of the MFI named Busa Gonofa Microfinance of Ziway branch. The researcher used descriptive statistics and multiple econometric methods were employed in order to analyze socioeconomic factors that can influence their loan repayment performance of MFI clients under consideration. The result of the study suggested that independent variables such as loan diversion, family size and celebration of social ceremonies showed a negative significant effect on loan repayment performance while the variables including income from other activities, livestock holding, membership duration, loan supervision and training on loan use have a significant positive effect on loan repayment performance.

### **2.3.2 Empirical Studies in Other Countries**

The study findings conducted by Marcelina, (2017) in assessing the impacts of social-economic factors on loan repayment performance revealed that there is a significant relationship between business characteristics (including size, age and location), individual borrowers' factors (including the education level, age and experience in borrowing), loan factors (interest rate, loan amount and collateral) and the loan repayment.

Also on the study conducted with an objective to assess the causes of NPLs, Phides (2013) found that factors including moral hazards, inadequate business, financial, marketing, entrepreneurship and management skills, fund diversion, multiple loans, adverse customer selection problem, poor loan policy, inadequate loan monitoring and poor customer services appeared as the causes for NPLs.

Another finding of the study conducted to assess the creditworthiness and repayment performance revealed that while farmers with large total operating expenditure-income ratio,

longer years of farming and older farmers with adequate supervision were credit worthy whereas those farmers with better educational level and large farm sizes were non credit worthy (Nkem *et al*, 2016).

According to another related study, Mohammad &Hooman (2009) identified variables affecting repayment performance such as age, farm land hectares, experience, income, interest rate of received loan, time laps between loan application and disbursement, whether respondent used loan for investment activity, total application costs, whether respondent owned farm machinery, loan size, collateral value and number of installments. Out of these variables, it is found that farmer's experience, income, loan size and collateral value had positive effect while loan interest rate, total application costs and number of installment showed a negative effect on loan repayment performance of borrowers.

Further, Amen (2011) studied factors related to borrower characteristics (such as age, gender, educational level, other source of income and loan diversion), borrowers business (such as other sources of credit, urban/rural area and marketplace), institutional characteristics (including loan processing time, loan supervision, interest rates, screening criteria, grace period and loan size) and environmental factors that can influence loan repayment behavior in the community banks, Tanzania. Following the descriptive statistics and multiple regression analysis, the findings of the study suggested that factors such as age, gender, other source of income, loan diversion, availability of alternative source of credits, loan supervision, screening criteria and loan size reveal positive relationship with respect to loan repayment; where as other independent factors including education level, rural/urban area, borrowers market place, loan processing time and interest rate showed negative relationship with loan repayment.

As per another empirical study, Norhaziah & MohdNoor (2012) aimed to identify various factors the influence loan repayment performance in microfinance programs, Malaysia. The finding of the study revealed that factors such as age, religious education, total income and business formality found to be negatively related with repayment performance; whereas other variables including gender, business experience, distance to the lender office, number of time visit and loan approval have got a positive relationship with repayment performance.

There is also another empirical study that conducted to specify major determinants of loan repayment performance in Small Scale Enterprises (SSEs) located in Kariobangi Division, Nairobi County. The finding of this study suggested that higher education level, large family size, large amount of loan applied and longer duration of business result in increased loan repayment performance, on one hand; while an increase in age, interest rate and change in gender leads to more loan default, on the other (Kiliswa Nancy, 2012).

According to another paper, Kenneth (2016) undertook an investigation with specific objectives to identify lenders-, borrowers- and loan-related factors can influence loan repayments among customers of commercial banks in Kenya - specific to Barclays Banks of Kenya limited. Using multiple regression analysis, the study concluded that there is a significant relationship among those individual borrowers-, lenders- and loan-related factors and loan repayment performance of those customers considered for the purpose of this very study.

#### **2.4 Factors related with Loan Repayment Performance**

Following are the set of borrower- and loan-related factors that can lead to settled term loans repayment performances of OIB borrowers who had successfully repaid different term loans granted at different OIB branches operating across the country.

#### 2.4.1 Borrower-related Factors:

- a. **Credit History** - implies past loan repayment history of a borrower with other lending financial institutions. According to William & Richards (2007) indicated credit history as one of the criteria for successful loan repayment and argued that loans must be made only to those who present the least risk of failure to repay. Past repayment history (that is good credit) is the first and probably the most important requirement for a successful loan.
- b. **Business Experience** - this is another borrower-related factor which refers to borrower's experience in running the business he/she/it actually engaged in. It is stated as the number of years a borrower has acted in business is expected to increase his/her/their/its productivity and thus to exert credit worthiness in the face of lenders (Eze & Ibekwe, 2007).
- c. **Education** – refers to the highest level of school a borrower have completed or the number of years of formal schooling. It is considered as an indicator of credit worthiness that would increase repayment capacity of borrowers. (Eze & Ibekwe, 2007).
- d. **Business Type** – this is another borrower-related factor that implies the type of business sector in which the borrower is engaged. It is argued that productive and short-term yielding economic activities do likely increase the repayment capacity than consumption and long-term yielding activities (Amen-Rabi, 2011)
- e. **Collateral** – this suggested borrower's collateral strength or collateral coverage which can be offered as a security whenever the borrower planned to apply for another or additional loan. Frederic, (2011) argued collateral as one of the important

credit risk management tools representing property promised to the lending institution as compensation in case the borrower defaults.

#### 2.4.2 Loan-related variables:

- a. **Screening** - a pre-approval selection process that helps to identify risky loan applications from good ones based on reliable information collected about prospective borrowers (Frederic, 2011).
- b. **Demand for Loan** - is loan-related factor which indicates borrowers' desire to apply for another or additional loan after fully repaying outstanding balance of existing term loan. Amen-Rabi (2011) stated that banks should establish appropriate credit management environment which includes operation under sound loan provision process, maintaining an appropriate loan repayment administration, having clear procedures and criteria of evaluating loan applications.
- c. **Utilization of Loan** - implies tendency of a borrower to utilize the disbursed loan solely for the purpose it was originally approved for by lending financial institutions without diverting (Abreham, 2017).

**Size of Loan** – this is another loan-related factor which represents granting sufficient average loan amount relative to borrower's repayment capacity that the lending institutes approved to the borrowers business appraisals. Here, the assumption is that the more the sufficient loan amount disbursed to the requesters, the more they can finance the proposed business and the more they can succeed the business profitably. On the other hand, the less approved loan size below the proposed business plan to the borrower, the higher the possible difficulties they can face while running the business due to insufficiency of funds available by the

lending institutes. To mitigate these problems, efficient and effective utilization of the loan funds could be very essential for the borrowers while running their business (Abreham, 2017). This also represents granting sufficient average loan amount based on cash flow budgeting technique is used to assess repayment capacity (Van, 2002).

- d. Duration of Loan** - indicate the suitability of loan repayment period that agreed between the lending financial institution and the borrower during which the extended loan is expected to be fully repaid back to the lender (Metkel, 2017).

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

In this Chapter, the research identified the procedures and techniques that were used in the collection, processing and analysis of data. This chapter focused on the research design used, area of the study, target population of the study, the sampling design and the sample size in addition to data collection instruments and data analysis techniques.

#### **3.2 Methodology**

A descriptive study design was chosen to access about factors that can lead to settled term loans performance by considering the case of OIB into account. In attempt to achieve that, a quantitative data analysis technique was employed in order to find out the relative importance of factors of the study.

It was stated that quantitative data can be analyzed using descriptive statistics such as measure of central tendency, frequencies, standard deviation and standard errors. Such descriptive analysis used to investigate the relative importance of major study factors that can influence the loan repayment performance of small holder farmers (Million, 2012).

Employing a descriptive research design thus can be used in order to organize, analyze and come up with the study findings which then interpreted and discussed. Such descriptive analyses approach was adopted to explain the relative importance of primary data collected from survey respondents using the structured survey questionnaires. To analyze such collected data, a quantitative research method was adopted based on the statistical data collected from respective primary sources. That is to say, first hand data was collected from selected sample size of survey

respondents using a convenient data collection instrument namely structured questionnaire that was developed for the purpose of the study.

### **3.3 Study Area**

The study focused on term loans repayment performance of OIB borrowers, who had been settled the outstanding balances of their respective loans extended to them both at different city and outlying branches of the same bank, were targeted as the specific area of the study on hand.

However, by considering the prime purpose of this study and also the availability of required resources (such as time and cost constraints) that needed, the employees of OIB - who directly engaged in daily loan administrations such as loan processing, credit appraisals, making credit decisions and subsequent monitoring and follow up operations - were targeted as the specific area of the study units from which survey respondents were selected to collect the required data for the study.

Here it is worthy to emphasize that the core reason that motivated the researcher for concentrating on OIB employees (who are responsible to handle and manage loan-related daily activities) as the main source for the required data was subjected to the following: better knowledge and understanding about subject matter of the study, literacy level needed to provide appropriate survey responses, besides time and resource constraints that limited the need to collect the required data directly from those OIB borrowers who spread throughout the country where OIB branches actually operating.

### **3.4 Target Population and Sampling Technique**

#### **3.4.1 Target Population**

A population can represent collection of persons, things, or objects under study. For the purpose of this study, target population consists of OIB staffs who directly work with loan administration at different organizational levels that responsible for loan processing, credit decision making and monitoring and follow-up operations of the bank under consideration.

The idea of sampling come into surface so as to select some portion from target population and then conduct study on the portion (the sample) to gain information about that population (Susan & Barbara, 2017). Another argument cited by Kenneth (2013) in his study suggested that population is also known as a “universe” which refers to all the items in the field of inquiry (Kumar, 2008).

The total numbers of study units or respondents which considered for the purpose of this study were composed of 243 OIB employees who actually engaged in the day-to-day loan administration activities - representing population targeted for the study. That is to say, the study subject targeted for this study consisted of such study units namely different credit management committee functioning at varied organizational levels of the bank in question (such as Management Credit Committee (MCC), Department Credit Committee (DPCC), District Credit Committee (DCC) and Branch Credit Committee (BCC)), in addition to different loan experts responsible for handling loan processing and monitoring operations (such as Relationship Managers, Credit Analysts, Loan and Monitoring Officers) who operate at head office, district and also at different city and outlying OIB branches.

### 3.4.2 Sampling Technique

A sample can be defined as a group of relatively smaller number of individuals or objects selected from a population for investigation purpose. The members of the sample are called as participants. The process through which a sample is extracted from a population is called as sampling. Since it is not easy to investigate and assess every single element of a given population, a group of individuals consisting of a smaller number need to be selected. On the basis of information obtained from the sample (representative of the population), the inferences are drawn for the population (Mohsin, 2016).

It was also suggested that survey sampling describes the process of selecting a sample of elements from a target population in order to conduct a survey. The purpose of sampling is thus to reduce the cost and/or the amount of work that it would take to survey the entire target population (Ismail, 2012).

Regarding as to which sampling technique to employ for this study, defining the type of appropriate sampling technique appeared to be very important in order to make the study more meaningful and successful.

Although representative samples are produced by probability sampling, however, there are many instances in which it turns out difficult - if not impossible - to use a probability sampling technique. The prime purpose of the study was to collect the required data on factors that could lead to successfully settled term loans performance of OIB borrowers. However, the limitations of required resources such as time and finance have influenced the decision as to which sampling technique to be used.

It was argued that if the available resources such as time, cost and efforts are not enough and/or if the study is meant at exploring an idea rather than understanding a population, non-probability techniques are well suited. However, if enough resources are available or else if the research is conducted to develop the understanding about the population, then probability sampling is suggested (Mohsin, 2016).

Thus it is followed that this study employed a purposive sampling method (one of the non-probability sampling technique) for two basic reasons: one was to access about factors that could cause settled term loans repayment performance -case of OIB borrowers- by collecting a first-hand data from OIB employees who directly deal with daily loan administrations. Another basic reason of using purposive sampling technique was due to limited resources (such as time and finance) that needed to conduct the study.

### **3.4.3 Sample Size**

In order to represent population targeted for the study, selecting larger sample size enables to minimize the possibility of making sampling error.

In support of the preceding argument, Mark & Natalia (2017) claimed that the natural variation that results from selecting a sample to represent a larger population decreases as the sample size increases. Mark & Natalia (2017) added that selecting larger samples reduces sampling error. Further, it was suggested that a sample between 10-30% of the target population is considered adequate for generalization of the findings to the whole population (Mugenda & Mugenda (2003).

In attempt to select a representative sample, the subsequent table (Table – 3.2) was thus developed by employing purposive sampling technique so as to assist the selection of required

sample size that can lead to generalization of findings on behalf of population considered for this study.

**Table – 3.2: Developing Sample Size on the Basis of Purposive Sampling Technique**

Units of Study (survey participants targeted for study)	Target Population (Total)	Proportion (purposive)	Selected number of study subjects (to whom questionnaires distributed)
Branch Managers managing at City & Outlying Branches of OIB	115	0.95	109
Loan Officers operating at City & Outlying Branches of OIB	67	0.95	64
Credit Analysts & Loan Officers operating at HO Credit Management Department of OIB	29	0.95	28
Monitoring & Loans Recovery Officers Working at Monitoring & Recovery Department of OIB	11	0.95	10
Members of District Credit Committee of OIB	12	0.80	10
Members of Credit Management Committee at Head Office of OIB	9	0.80	7
<b>Total</b>	<b>243</b>		<b>228</b>

*Source: Compiled from HR Record of OIB Staff dated 2018/19*

Based on purposive sampling method that developed, as shown using Table – 3.2 indicated just above, the sample size selected for the purpose of this study, therefore, computed to be 228, which consisted of 109 branch managers, 64 branch loan officers, 28 credit analysts and loan officers who operate in the Credit Management Department, 10 officers from Monitoring and Follow-up Department, 10 members from District Credit committee and finally 7 members from Management Credit Committee. To assure the representative capacity of those selected samples

from 243 population of the study, the overall ratio of selected number of study subjects (that is 228) compared to the size of targeted population (that is 243) appeared to be about 0.94 or 94%. Individual proportion of study units, which ranged from 0.8 to 0.95, were adopted to calculate the intended sample size of the study from each of the respective study subjects - as depicted in the Table - 3.2 above.

Out of the 288 total number of questionnaires that distributed out to those purposively selected number of respondents, therefore, 196 of questionnaires were successfully responded and returned back - representing the actual sample size of this study on which data collection, data analysis and conclusion relied on.

### **3.5 Ethical Consideration**

In this study, ethical issues were considered as a core concern while seeking access from individual survey respondents during data collection process. In fact, the privacy and confidentiality of data collected from participants of survey respondents was assured to them through distributed data collection instruments indicating that the purpose of collecting the required data remain purely academic and also given high consideration and respect. The assurance was also provided in writing stating that no names and the collected data from individual survey respondents going to be disclosed to third party in any ways.

### **3.6 Data Collection Method**

#### **3.7.1 Questionnaire**

Questionnaire is one of the main methods available for collecting the required data from survey participants discussed earlier who represent the study subjects of this thesis. In fact, the selection of this method depends upon a number of factors: availability of resources needed to reach

survey participants and hence collect first-hand data from the same, the literacy level of respondents, knowledge about the subject matter of the study and motivation of the respondents (Mathers, Fox &Hunn2009).

A five point Likert scale has been employed so as to transform attitudinal scale responses into quantitative measure and hence represent a quantitative research method (Harry & Deborah, 2012).

Furthermore, it has also been argued that Likert scale data are analyzed using the interval measurement scale. As far as the type of data analysis procedures concerned, descriptive statistics were recommended for interval scale items which include the mean for central tendency and standard deviations for variability (Harry & Deborah, 2012).

Regarding the type of data required for this study, the first-hand data was considered as the main source that collected from survey participants. The process of data analysis was conducted using a descriptive statistics so as to summarize collected data using such descriptive statistical analysis including: frequency, center of data, spread of data, percentile, maximum and minimum as appropriate.

### **3.7.2 Sources of Questionnaire**

The questionnaire developed for the purpose of this study was devised by the researcher so as to collect the required data from survey participants. For this matter, Mathers et al. (2009) suggested that questionnaires can also be devised by the researcher with an option to design his/her own questionnaire so as to gather the required data from primary sources.

### **3.7.3 Type of Data**

Survey questions designed to ask respondents are the basis of research findings and conclusions. These questions constitute the ‘input’ for conclusions (the ‘output’). This input passes through a series of steps – the selection of a sample, the collection of information, the processing of data, the application of statistical procedures and the writing of a report – and the manner in which all of these are done can affect the accuracy and quality of your conclusions (Ranjit, 2011).

Considering such reasons including limited literacy level of OIB borrowers targeted for the purpose of the study, time and resource constraints; the first-hand data was collected from selected samples of survey respondents of OIB employees, who directly involved in handling and managing the overall loan-related daily operations.

The collections of such primary data from selected samples of respondents were accomplished by considering the type of information needed for undertaking the study on hand. Of course, such data was collected in connection with factors specific to borrowers- and loan-related characteristics that can lead to settled term loans performances – considering the case of OIB.

### **3.7.4 Validity of Instrument**

Validity is the ability of the measuring instrument to measure what it claims to measure or put simply, it is the accuracy of measurement. It suggests whether or not the instrument measures what is supposed to be measuring. As William & Frances (2012) stated, validity represents the extent to which measurements actually measure what they are supposed to measure.

The question asking how it can be established that an instrument is measuring what it is supposed to measure is very important since it underpins the basis of making judgment. For this

matter, one of the available approaches preferred for checking the validity of instrument (questionnaires) developed for the purpose of this study is regarded as content validity.

Referring to Mark (1995), content validity involves subjective measure of how appropriate survey items seem to a set of intended reviewers who, of course, have got some basic knowledge of the subject matter.

Applying the concept of content validity approach, therefore, survey questionnaires were distributed to a group of reviewers consisting of 15 individuals who believed to possess loan-related expertise. It turns out that, such individuals were reviewed the contents of survey so as to ensure if it contained everything it should and doesn't include anything that it shouldn't.

To ensure validity, thus, the measuring instrument (questionnaire) was tested so as to ensure that respondents had no problem in answering the questions and that there would be no problem in recording data.

### **3.7.5 Reliability of Instrument**

Reliability of instrument suggested the degree of stability exhibited when a given measurement is repeated under identical conditions (Mark, L. (1995). It implies the extent to which the research methodology and/or data produce the same results over a period of time. In other words, if the conditions are constant and the same data are used, the output of the system should remain at about the same level (William & Frances, 2012).

The concept of reliability can thus be looked at by posing a question: How reliable is an instrument? The question focuses on the ability of an instrument to produce consistent measurements. If we collect the same set of information repeatedly more than once using the

same instrument and get the same or similar results under the same or similar conditions, an instrument is considered to be reliable. Referring back to Ranjit (2011), reliability is the degree of accuracy in the measurements made by a research instrument. That means, the lower the degree of 'error' in an instrument, the higher the reliability.

How to measure the reliability of an instrument? There are a number of ways to assess the reliability of an instrument. For the purpose of this study, however, the researcher tested the reliability of the instrument applying the so called internal consistency reliability that measure different aspects of the same concept. It measures internal consistency reliability among a group of items combined to form a single scale which can be tested by computing the Cronbach's alpha ( $\alpha$ ): a statistic frequently employed to indicate the reliability (or internal consistency) of a number of items that form a scale using the SPSS. More specifically, Mark, (1995) suggested that internal consistency reliability determines a reflection of how well different items complement each other in their measurement of different aspects of the same variable or quality. Mark (1995) also added that one can conclude a scale is said to have good reliability if Cronbach's alpha computed to be  $\geq 0.70$ .

### **3.8 Data Analysis Method**

Considering the inconvenience associated with gathering the first-hand data from targeted borrowers of OIB and also the limitation linked with time and finance constraints, the Likert Scale procedure was used for measuring attitudinal responses of survey participants quantitatively.

It is suggested that Likert scale items are created by calculating a composite score from four or more Likert-type items. And the composite score for Likert scales can then be analyzed using the interval measurement scale. Regarding the appropriate data analysis procedures using Likert

Scales, descriptive statistics that were recommended for interval scale items include the mean for central tendency and standard deviations for variability (Harry, B. & Deborah, B, 2012).

After collecting the required data, data analysis was conducted by employing descriptive statistics such as Percentage, Frequency, the Mean and Standard Deviations (SD) values that would help to generalize the relative importance of those factors of the study.

## CHAPTER FOUR

### RESULTS and DISCUSSIONS

#### 4.1 Introduction

In the preceding chapter, the research design employed for this study was presented and discussed somehow in detail. The purpose of this chapter was to present the results of the study followed by respective discussions; after conducting a detailed analysis of those data collected from selected samples of survey participants. In attempt to describe the characteristics of data set collected from primary sources, thus, descriptive statistical analysis was used to come up with study conclusions.

It was argued that descriptive statistics summarizes or describes characteristics of a data set. It consists of two basic categories of measures: measures of central tendency and measures of variability or spread. Measures of central tendency describe the center of a data set whereas measures of variability or spread describe the dispersion of data within the set. Descriptive statistics, in short, help describe and understand the features of a specific data set by giving short summaries about the sample and measures of the data (WILL, 2019). Furthermore, Sarang, (2018) added that descriptive statistics involves summarizing and organizing the data so they can be easily understood. Descriptive statistics, unlike inferential statistics, seeks to describe the data, but do not attempt to make inferences from the sample to the whole population.

The results of descriptive statistics were used to describe the percentage (frequency), the center and spread of data that were collected from selected samples of survey participants and hence assess factors that can influence settled or fully repaid term loans repayment performance – by taking OIB into account.

To facilitate such descriptive analysis, therefore, the so called Statistical Package for Social Science (SPSS) version 20.0 was employed to analyze and present data through descriptive statistical analysis.

#### **4.2 Questionnaire Response Rate**

Out of 243 target populations of the study, questionnaires were distributed to a total number of 288 purposively selected study subjects. Out of such 228 distributed questionnaires, 196 were successfully responded and returned back – representing 86% questionnaire response rates.

For this matter Kenneth, O. (2013) cited in his study by referring to Mugenda & Mugenda (2003) that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. It is followed that the response rate of this study, which appeared to be more than 70%, was thus excellent and representative of the targeted population of the study and it conforms to Mugenda and Mugenda (2003) argument.

Those 196 returned questionnaires, therefore, served as the basis for data analysis so as to present the findings and draw conclusions. That is, out of 228 totally distributed questionnaires, 196 of them were successfully responded and collected back whereas the remaining 32 questionnaires were discarded - as most of them were not returned back and/or not properly filled out as required. Therefore, the result of data analysis, discussions of the findings and conclusions of the study were based only on those 196 successfully completed and returned survey questionnaires.

### 4.3 Descriptive Data Analysis

The subsequent descriptive statistics were used in attempt to conduct data analysis about factors that could cause settled term loans repayment performance - considering the case of OIB. To facilitate such analysis, the SPSS statistical package was employed so as to simplify the analysis of data collected from survey respondents by employing some of basic descriptive statistical tools. These descriptive statistics include:

- Frequency – to see the number of times each survey statement rated by respondents of the study.
- Percentage – to assess the proportion of response rates and compare to judge the relative importance of each factor of the study towards leading to the repayment performance of fully repaid term loans – considering the case of OIB.
- The mean – to assess about the center of collected data from selected samples of survey participants in terms of each factor of the study.
- Standard deviation – to assess the spread out of collected data about the mean against each factor of this study (SPSS Tutorials, 2019).

The study required survey respondents to rate the relative importance of a given survey statements dealing with borrower and loan related factors towards influencing successfully settled term loans performance - by considering the case of OIB. In this case, therefore, each factor was analyzed and discussed one after another with the help of the stated descriptive statistical tools as presented next. That is, subjects of the study were asked to rate both borrower- and loan-related factors of the study or survey statements by considering the level of their importance in causing successfully settled term loans of OIB using a five-point Likert Scale. The rating was undertaken based on the following rating scales:

- (1) if not important;
- (2) if less important;
- (3) if moderately important;
- (4) if important; and
- (5) if very important.

The discussions of data analysis were thus made based on the above rating points to reach at conclusions about each factor of the study.

#### **4.3.1 Borrower-Related Characteristics**

Here descriptive data analysis was carried out considering the following borrower specific factors: Credit History, Business Experience, Education Level, Business Type and Collateral Strength. In this line, survey respondents were requested to rate these factors (using a five point Likert Scale from 1 to 5 respectively against the following: not important, slightly important, moderately important, important or very important) by considering the extent of their relative importance towards leading to successfully settled term loans performance of OIB. To discuss the relative importance of each factor of the study, therefore, the analysis was conducted by considering the mean score value of each study factor that generated after running the SPSS package.

##### **a) Credit History:**

Referring to Table 4.3 shown bellow, the descriptive result of survey response rates regarding the importance level of borrowers' credit history record with lending financial institutions in the past - towards leading to successfully settled term loans performance of OIB - can be described as next. It is followed that, out of the total number of 196 subjects of the study, 14 (7.1%) of them

believed that credit history is not important, 11 (5.6%) believed that credit history is slightly important, 25 (12.8%) indicated credit history is moderately important, 67 (34.2%) believed that credit history is important and the remaining 79 (40.3%) of respondents rated that credit history is very important.

Though the descriptive result of the study revealed that the majority of study units (that is 79 (40.3%)) rated credit history as 'very important', however, the resulting mean 3.95 value suggested that credit history is rather near or close to 'important'. This suggestion is so because the mean value 3.95 of the study is fairly close to the scale value allotted for survey statements rated as 'important', which is 4, in causing successfully collected term loans performance of OIB - as indicated in the questionnaires developed for the purpose of this study.

In general, based the resulting mean value of the study, survey respondents agreed that credit history can be fairly viewed as important towards leading to successfully settled term loans performances of the bank under consideration.

Thus the descriptive result suggested that extending term loans to existing as well as new credit applicants, that characterized by good track of loan repayment performances in the past with respect to any lending financial institutions, can be lead to successfully settled term loans performances of OIB. That is, granting term loans to borrowers having good record of past credit information with any lending commercial bank seem to be resulted in fully repaid term loans repayment performances the bank under question. This is so because credit history represents record of a borrower's ability to repay debts and can demonstrates borrower's responsibility in repaying debts. Whenever credit is requested, thus, borrower's credit history is used to assess

how he/she/it/they/ manage previous financial responsibilities and thus decide whether to grant a loan or not by looking into credit reports.

**Table – 4.3: Credit History versus Settled Term Loans Performance**

Credit History (CRHST)				
		Value	Count	Percent
Measurement		Scale		
N	Valid		196	
	Missing		0	
Central Tendency and Dispersion	Mean		3.95	
	Std. Deviation		1.184	
Labeled Values	1	Not Important	14	7.1%
	2	Slightly Important	11	5.6%
	3	Moderately Important	25	12.8%
	4	Important	67	34.2%
	5	Very Important	79	40.3%

*Source: SPSS Output of Survey Data*

**b. Business Experience:**

As shown in the Table 4.4 shown under, the descriptive result of respondents' survey responses while rating the importance level of borrowers' business experience in causing successfully settled term loans performance of OIB can be discussed as follows. Out of the total number of 196 of survey respondents, none of them believed that business experience is not important, 5 (2.6%) believed that business experience is slightly important, 17 (8.7%) indicated business experience is moderately important, 80 (40.8%) believed that business experience is important and the remaining 94 (48.0%) of respondents rated that business experience is very important.

Here also even if the descriptive result of the study showed that the majority of respondents (that is 94 (48.0%)) rated business experience as 'very important', it is fair to argue that this factor (business experience) is important in leading to successfully settled term loans performance of OIB; since the resulting mean value 4.34 obtained against business experience is rather near to 'important'. This is to say, since the mean value 4.34 of the study is fairly close to the scale value allotted for survey statements rated as 'important', which is 4, in leading to successfully collected term loans performance of OIB - as indicated in the questionnaires developed for the purpose of this study.

In general, based on the above discussion regarding the importance level of business experience, the study units agreed that business experience can arguably viewed as important towards leading to successfully settled term loans performances of the bank under consideration.

Thus the study result suggested that granting term loans to those borrowers having sufficient years of business experience - in relation with the type of business sectors in which they have actually been engaged in - can lead to successful repayment performances. Extending term loans to applicants who believed to exactly know how to successfully run the type of business he/she/it expected to manage could be resulted in fully repaid term loans repayment performances. That is, borrowers with better knowledge and experiences on the relevant businesses can profitably run their businesses. Even if crises happen to specific business segment, borrowers with previous business exposures may recover their business and will succeed consequently contrary to borrower with no or less business experience. The good experienced the borrowers are, the more they can succeed their business and repay the loan timely. On the other hand, the less they are experienced the highest the probability of being defaulters they are.

**Table – 4.4: Business Experience versus Settled Term Loans Performance**

<b>Business Experience (BUSEXP)</b>				
		Value	Count	Percent
Standard Attributes	Measurement	Scale		
N	Valid		196	
	Missing		0	
Central Tendency and Dispersion	Mean		4.34	
	Std. Deviation		.745	
Labeled Values	1	Not Important	0	0.0%
	2	Slightly Important	5	2.6%
	3	Moderately Important	17	8.7%
	4	Important	80	40.8%
	5	Very Important	94	48.0%

*Source: SPSS Output of Survey Data*

### **c. Education Level:**

Referring to Table 4.5, the study result of survey response rates about the importance level of borrowers' education level towards leading to successfully collected term loans performance of OIB depicted this: out of the total number of 196 of survey respondents, 43 (21.9%) of them believed that education level is not important, 38 (19.4%) believed that education level is slightly important, 61 (31.1%) indicated education level is moderately important, 47 (24.0%) believed that education level is important and the remaining 7 (3.6%) of respondents rated that education level is very important.

However, even the descriptive result of the study showed about 61 (31.1%) of respondents rated education level as 'moderately important', it is evident to argue that this study factor (i.e. education level) appeared less or slightly important in causing successfully settled term loans performance of OIB. This view point is so because the resulting mean value 2.68 that generated

against borrower's education level is rather close to 'slightly important' since this mean value (i.e.2.68) is rather some how far away from survey scale value (i.e. 3) that actually fixed for rating 'moderately important' - as indicated in the questionnaires developed for this study. So based on the mean value discussed just above, education level can arguably be labeled as slightly important in causing successfully settled term loans performances – considering the case of OIB. Thus looking into the study result shown in the Table 4.5, respondents agreed that borrowers' education level representing the highest level of education a person received and successfully completed appeared to be the least important factor while comparing with other borrower related factors of the study towards influencing successfully repaid term loans repayment of OIB. That is, the scored mean value of 2.68 that computed based on survey response rates suggested that the majority of survey respondents perceived education level as the least borrower-related factor in causing successfully settled term loans repayment performance when compared with the other borrower-related factors considered in this study.

**Table – 4.5: Education Level versus Settled Term Loans Performance**

Education Level (EDU)		Value	Count	Percent
Standard Attributes	Measurement	Scale		
N	Valid	196		
	Missing	0		
Central Tendency and Dispersion	Mean	2.68		
	Standard Deviation	1.165		
Labeled Values	1	Not Important	43	21.9%
	2	Slightly Important	38	19.4%
	3	Moderately Important	61	31.1%
	4	Important	47	24.0%
	5	Very Important	7	3.6%

*Source: SPSS Output of Survey Data*

**d. Business Type:**

Referring to Table 4.6 shown below, the descriptive result of survey response rates regarding the importance level of borrowers' business type towards leading to successfully settled term loans performance of OIB revealed that; out of the total number of 196 subjects of the study, 7 (3.6%) of them believed that business type is not important, 5 (2.6%) believed that business type is slightly important, 32 (16.3%) indicated business type is moderately important, 90 (45.9%) believed that business type is important and the remaining 62 (31.6%) of respondents rated that borrowers' business type indicated as very important.

Here the result of the study depicted that most of study subjects (that is 90 (45.9%)) rated business type as 'important' and also the resulting mean value of 3.99 (which appeared very close to 4 of survey rating scale) thus suggested that borrowers' business type is fair to be considered as important. This suggestion is so because the resulted mean value 3.99 is very close to the scale value (i.e. 4) which was allotted for rating survey statements denoted as 'important', in causing successfully collected term loans performance of OIB.

Thus the result of this study factor suggested that extending term loans to borrowers who supposedly engaged in a profitable type of businesses (such as sole proprietorship, partnership, corporation, or private limited company) believed to cause successfully settled term loans performances considering the case of OIB. Stated differently, granting term loans to those arguably less risky business sectors could save lending commercial bank under question from the possibility of NPLs and hence this can be perceived as the main reason to have a well performing term loans that could be lead to successful collection performances.

**Table – 4.6: Type of Business Sector versus Settled Term Loans Performance**

Type of Business (BUSTYP)					
Standard Attributes		Measurement	Value	Count	Percent
N	Valid		196		
	Missing		0		
Central Tendency and Dispersion	Mean		3.99		
	Standard Deviation		.953		
Labeled Values	1	Not Important		7	3.6%
	2	Slightly Important		5	2.6%
	3	Moderately Important		32	16.3%
	4	Important		90	45.9%
	5	Very Important		62	31.6%

*Source: SPSS Output of Survey Data*

#### **e. Collateral Strength:**

Survey respondents further requested to rate the importance level of collateral strength in causing successfully settled term loans performances of OIB. Accordingly, the subsequent Table 4.7 depicted that, from the total number of 196 subjects of the study, 22 (11.2%) of them believed that collateral strength is not important, 9 (4.6%) believed that collateral strength is slightly important, 14 (7.1%) indicated collateral strength is moderately important, 50 (25.5%) believed that collateral strength is important and the remaining 101 (51.5%) of respondents rated that collateral strength as is very important towards leading to successfully settled term loans performances of the bank under study.

Again here, although the descriptive result of this study factor (i.e. collateral strength) showed the majority of respondents or 101 (51.5%) of them rated education level as ‘very important’, it is evident from respective mean value 4.02 that this study factor rather appeared as important in causing successfully settled term loans performance of OIB. This is so because the resulting mean value 4.02 that generated against borrower’s collateral strength found almost the same as

the rating scale value (i.e. 4) which was allotted for rating survey statements that believed to be ‘important’ (just as indicated in the questionnaires developed for the purpose of this study). In general, borrowers’ education level hence can be regarded as important towards causing successfully settled term loans performances of OIB.

Thus by looking into the study result depicted under Table 4.7, the majority of survey respondents agreed that the estimation value of collateral relative to loan outstanding balance can be perceived as the main reason to have successfully settled term loans performance of OIB. Stated differently, borrowers who offered collateral having strong market value relative to the outstanding balances of previously extended term loans usually tended to successfully settle such existing outstanding balance of loans with an aim to apply for an increased amount of another loan from OIB or other lending commercial banks.

**Table – 4.7: Collateral Strength versus Settled Term Loans Performance**

<b>Collateral Strength (COLSTR)</b>				
		Value	Count	Percent
Standard Attributes	Measurement	Scale		
N	Valid	196		
	Missing	0		
Central Tendency and Dispersion	Mean	4.02		
	Standard Deviation	1.338		
Labeled Values	1	Not Important	22	11.2%
	2	Slightly Important	9	4.6%
	3	Moderately Important	14	7.1%
	4	Important	50	25.5%
	5	Very Important	101	51.5%

*Source: SPSS Output of Survey Data*

### 4.3.1 Loan-Related Characteristics

At this point, descriptive analysis was conducted against the subsequent loan specific factors of the study such as screening, demand for other loan, utilization of loan, size of loan and duration of loan. Just as the case with borrower specific factors discussed above, here also survey respondents were requested to rate loan related survey statements using a five point Likert Scale from 1 to 5 respectively against the following: not important, slightly important, moderately important, important or very important by considering the extent of their relative importance in causing settled term loans performance of OIB. To compare such relative importance of those selected loan-related factors, the analysis was conducted by considering the mean score value of each study factor that generated after running the SPSS package.

#### a. Screening:

Furthermore the subjects of the study requested to rate the importance level of screening in leading to successfully settled term loans performances of OIB. As shown in the Table 4.8 that follows, out of the total number of 196 subjects of the study, 10 (5.1%) of them believed that screening is not important, 9 (4.6%) believed that screening is slightly important, 32 (16.3%) indicated screening is moderately important, 67 (34.2%) believed that screening is important and the remaining 78 (39.8%) of respondents rated that screening as is very important in leading to successfully settled term loans performances of OIB.

But even if the descriptive result of this study factor (i.e. screening) showed that the majority of respondents or 78 (39.8%) of them rated screening as 'very important', it is evident from respective mean value 3.99 that such study factor rather seems important towards leading to successfully settled term loans performance of the bank under consideration. This argument is so since the resulting mean value 3.99 that generated against screening found very close to the

survey scale value (i.e. 4) that was allotted for rating survey statements that believed to be 'important' in causing successfully settled term loans performance - just as indicated in the questionnaires developed for the purpose of this study. So, screening can generally be considered as important in leading to successfully settled term loans performances of OIB.

Therefore, the response rates provided by survey respondents suggested that the practice of enforcing properly endorsed due diligence to safeguard against the possibility of adverse selection (i.e. selecting very risky businesses which most likely to default because of the greater possibility that borrowers will be unable to pay back their loans) and also getting into moral hazards (i.e. extending loans to borrowers who may have incentives to divert disbursed loans to engage in risky activities other than the approved purposes). Laying down such efforts to sort out bad loan applications from the good ones can enhance determine risks associated with extending loans and thus pave away to have successfully collected term loans repayment OIB. In fact, this process can also be achieved by using the 5C's framework by lenders in order to determine a potential borrower's creditworthiness towards deciding whether he/she/they/it is eligible for credit: character (a borrower's general trustworthiness, credibility and personality), capacity (whether a borrower's business generates enough cash flow to signify the ability to repay a loan in full), collateral (borrower's assets that are used to guarantee or secure a loan), capital (amount of money invested by a potential borrower or business owner), and conditions (to determine conditions under which borrower's business operating by considering the state of the economy and industry trends).

**Table – 4.8: Screening versus Settled Term Loans Performance**

Screening (SCRN)				
		Value	Count	Percent
Standard Attributes	Measurement	Scale		
N	Valid	196		
	Missing	0		
Central Tendency and Dispersion	Mean	3.99		
	Standard Deviation	1.100		
Labeled Values	1	Not Important	10	5.1%
	2	Slightly Important	9	4.6%
	3	Moderately Important	32	16.3%
	4	Important	67	34.2%
	5	Very Important	78	39.8%

*Source: SPSS Output of Survey Data*

**b. Demand for other Loan:**

Moving on the subjects of the study requested to rate the importance level of demand for loan in causing successfully settled term loans performances of the bank in question. As evident in the Table 4.9 that follows that out of the total number of 196 subjects of the study, 5 (2.6%) of them believed that demand for loan is not important, 10 (5.1%) believed that demand for loan is slightly important, 51 (26.0%) indicated demand for loan is moderately important, 94 (48.0%) believed that demand for loan is important and the remaining 36 (18.4%) of respondents rated that demand for other loan as is very important towards leading to successfully settled term loans performances of OIB.

But, even the descriptive result of this study factor under consideration showed that the majority of respondents or 94 (48.0%) rated same factor as ‘important’, it can be seen from its respective mean value 3.74 that this study factor rather seemed close to important towards leading to

successfully settled term loans performance of the bank under consideration. This is so because the resulting mean value 3.74 that generated against demand for loan appeared to be close somehow to the survey scale value (i.e. 4) that was allotted for rating survey statements that believed to be ‘important’ while rating factors that can lead to successfully settled term loans performance of OIB. Hence, demand for other loan can generally be considered as important in leading to successfully settled term loans performances of the bank under study.

Thus, it is followed that the result of the study suggested that OIB’s borrowers usually tend to settle the outstanding balance of existing term loans with an aim to apply for another or increased loans amount. That is, the need to apply for an increased amount or other loans and use the fund as additional working capital for running his/her/their/its business could serve as incentive and hence motivate such borrowers to settle the existing balances of previously extended term loans.

**Table – 4.9: Demand for another Loan versus Settled Term Loans Performance**

<b>Demand for another Loan (DDLON)</b>				
		Value	Count	Percent
Standard Attributes	Measurement	Scale		
N	Valid	196		
	Missing	0		
Central Tendency and Dispersion	Mean	3.74		
	Standard Deviation	.904		
Labeled Values	1	Not Important	5	2.6%
	2	Slightly Important	10	5.1%
	3	Moderately Important	51	26.0%
	4	Important	94	48.0%
	5	Very Important	36	18.4%

*Source: SPSS Output of Survey Data*

### **c. Utilization of Loan:**

Again respondents of the study asked to rate their view regarding the importance level of utilization of loan only for the purpose it originally approved towards causing successfully settled term loans performances of the bank in question. As evident in the Table 4.10 that follows that out of the total number of 196 subjects of the study, 1 (0.5%) of them believed that utilization of loan is not important, 5 (2.6%) believed that utilization of loan is slightly important, 30 (15.3%) indicated utilization of loan is moderately important, 84 (42.9%) believed that utilization of loan is important and the remaining 76 (38.8%) of respondents rated that utilization of loan as is very important towards leading to successfully settled term loans performances of the bank under study.

Here the result of the study depicted that most of study subjects (i.e. 84 (42.9%)) rated loan utilization as 'important' which seemed agree with the resulting mean value of 4.17 of the study factor under consideration. That is, since the resulted mean value 4.17 found to be very close to survey scale value (i.e. 4) which allotted to rate survey statements that viewed as 'important' in causing successfully collected term loans performance of OIB. Generally, the utilization of loan thus can be seen as important towards leading to successfully settled term loans performances of the bank under consideration.

This is therefore, survey respondents of this study viewed that proper utilizations of disbursed term loans only for the approved purpose by credit management committee of the bank under consideration can be lead to successfully repaid term loans performance. This means, proper utilization of granted term loan without diverting to any risky purpose other - than that it has originally been disbursed - can be lead to successfully settled term loans performance of OIB.

**Table – 4.10: Utilization of Loan versus Settled Term Loans Performance**

Utilization of Loan (LONUTL)				
		Value	Count	Percent
Standard Attributes	Label	Utilization of Loan		
	Measurement	Scale		
N	Valid	196		
	Missing	0		
Central Tendency and Dispersion	Mean	4.17		
	Standard Deviation	.815		
Labeled Values	1	Not Important	1	0.5%
	2	Slightly Important	5	2.6%
	3	Moderately Important	30	15.3%
	4	Important	84	42.9%
	5	Very Important	76	38.8%

*Source: SPSS Output of Survey Data*

#### **d. Size of Loan:**

The same respondents further asked to rate the importance level of disbursed loan size in relation with requested amount in causing successfully settled term loans performances of OIB. As depicted in the Table 4.11 that follows that out of the total number of respondents, 6 (3.1%) of them believed that loan size is not important, 12 (6.1%) believed that loan size is slightly important, 53 (27.0%) indicated loan size is moderately important, 83 (42.3%) believed that loan size is important and the remaining 42 (21.4%) of respondents rated that loan size as is very important towards leading to successfully settled term loans performances of the bank under question.

Here, the study result indicated that most of respondents (i.e. 83 (42.3%)) rated loan size as ‘important’ which is fairly close to the resulting mean value 3.73 of factor the study under

consideration. That is, since the resulted mean value 3.73 appeared to somehow close to survey scale value (i.e. 4) which fixed to rate survey statements as ‘important’ towards causing successfully collected term loans performance of OIB. Reasoning that way, loan size thus can be considered as important in leading to successfully settled term loans performances of the bank under consideration.

Based on the above discussions, the respondents of this study believed that granting the sufficient amount of loan size by considering such factors including the size of requested loan against borrower’s credit history, the value of offered collateral to secure the loan, the repayment capacity and nature cash flows of a borrower can lead to successfully collected term loans performance of OIB.

**Table – 4.11: Size of Loan versus Settled Term Loans Performance**

Size of Loan (LONSZ)				
		Value	Count	Percent
Standard Attributes	Measurement	Scale		
N	Valid	196		
	Missing	0		
Central Tendency and Dispersion	Mean	3.73		
	Standard Deviation	.968		
Labeled Values	1	Not Important	6	3.1%
	2	Slightly Important	12	6.1%
	3	Moderately Important	53	27.0%
	4	Important	83	42.3%
	5	Very Important	42	21.4%

*Source: SPSS Output of Survey Data*

**e. Duration of Loan:**

As depicted in Table 4.12, survey respondents also asked to rate the importance level of duration of loan contract in relation with repayment capacity and cash flows towards achieving successfully settled term loans repayment of OIB. It is followed that out of the total number of subjects of the study, 7 (3.6%) of them believed that duration of loan contract is not important, 13 (6.6%) believed that duration of loan contract is slightly important, 63 (32.1%) indicated duration of loan contract is moderately important, 86 (43.9%) believed that duration of loan contract is important and the remaining 27 (13.8%) of respondents rated that duration of loan contract as is very important towards leading to successfully settled term loans performances of the bank under study.

Even the descriptive result against the study factor on hand showed that the majority of respondents or 86 (43.9%) rated same factor as 'important', but it can be seen from the resulting mean value 3.58 that this factor of the study (i.e. duration of loan) rather matched with survey rating scale labeled as to 'moderately important' in causing successfully settled term loans performance of OIB. That is, since the mean value 3.58 that generated against duration of loan contract is not large enough with scale value (i.e. 4) that allotted for rating survey statements that believed to be 'important' in leading to successfully settled term loans performance of the bank of the study. Generally the duration of loan contract can be viewed as moderately important towards causing successfully settled term loans performances of the bank under question.

Thus considering the discussions made just above, respondents of the study agreed that granting the required amount of loan by considering enough length of loan duration (in years) and also by taking into account a fitting mode of installment period (monthly, quarterly, semi annually or annually that would match with the repayment capacity and cash flows borrowers) within which

borrowers could conveniently repaid back the borrowed loans can lead to successfully settled term loans performance of the bank under study.

**Table – 4.12: Length of Loan Contract versus Settled Term Loans Performance**

Length of Loan Contract (LONCNT)		Value	Count	Percent
Standard Attributes	Measurement	Scale		
N	Valid	196		
	Missing	0		
Central Tendency and Dispersion	Mean	3.58		
	Standard Deviation	.933		
Labeled Values	1	Not Important	7	3.6%
	2	Slightly Important	13	6.6%
	3	Moderately Important	63	32.1%
	4	Important	86	43.9%
	5	Very Important	27	13.8%

*Source: SPSS Output of Survey Data*

#### 4.4 Reliability Statistics

Mark (1995) suggested that internal consistency reliability determines a reflection of how well different items complement each other in measuring different aspects of the same variable or quality. Further, Mark added suggesting that a scale is said to possess a good reliability if the resulted value of Cronbach's alpha  $\geq 0.70$ .

In this line, the subsequent to the descriptive analysis discussed in the preceding section, the reliability analysis based on ten borrower- and loan-related factors of the study that indicated in the previous sections has also been done using Cronbach's Alpha in order to insure the internal consistency of the questionnaires structured for the study and see if the survey scale measured

the same construct. In this regard, the Cronbach's Alpha result approximated to 0.78 was produced after running the statistical package called SPSS (Please look at Table – 4.13).

**Table – 4.13: Reliability Statistics**

Cronbach's Alpha	N of Items
.784	10

*Source: Study Output based on collected Data*

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS and RECOMMENDATIONS

The preceding chapter discussed the overall findings of the study in detail. Based on such findings, thus, this chapter tried to present the summary of the study findings followed by conclusions and appropriate recommendations – one after another.

#### 5.1 SUMMARY

It is a common knowledge to say that any academic writing has got its own objective. As such, the main objective of this study was to assess and hence identify factors that can lead to fully repaid term loans repayment performance – considering the case of Oromia International Bank Share Company. Accordingly, the summarized findings on both borrower- and loan-related factors that lead to Settled Term Loans Repayment Performance of the study was hereby presented next.

##### 5.1.1 Borrower - related Characteristics

###### a. Credit History

The descriptive result of respondents suggested that extending term loans to existing as well as new credit applicants who characterized by good track of loan repayment performances in the past with respect to any lending financial institutions can lead to successfully settled term loans repayment performance. Stated differently, disbursing term loans to borrowers having good record of past credit information with any commercial bank can be resulted in fully repaid term loans repayment performances.

**b. Business Experience**

The preceding descriptive result depicted that granting term loans to those borrowers having sufficient years of business experience - in relation with the type of business sectors in which they have actually been engaged in - can lead to successful repayment performances. That is to say, extending term loans to credit applicants who believed to know how to successfully run the type of business he/she/it expected to manage could be resulted in fully repaid term loans repayment performances.

**c. Education Level**

Respondents agreed that education level of borrowers appeared to least important while compared with other factors of the study in causing successfully repaid term loans repayment performances. That is, the scored mean value of 2.68 that computed based on survey response rates suggested that the majority of survey respondents perceived education level as the least borrower specific factor in relation with successfully settled term loans repayment performance – compared with the other borrower-related factors considered in this study.

**d. Business Type**

The study suggested that extending term loans to borrowers who engaged in a profitable type of businesses believed to be resulted in successfully settled term loans repayment performances. In other words, making the disbursement of any term loans to those arguably less risky business sectors could save lending commercial banks from the possibilities of NPLs and hence this can also be perceived as the main reason to have a well performing term loans that could be lead to the intended successful repayment performances.

### **e. Collateral Strength**

The majority of survey respondents selected for the study agreed that the estimation value of collateral can be perceived as the main reason to have successfully settled term loans repayment performance. That means borrowers who offered collateral with strong market value usually tended to successfully repay the outstanding balance of their existing term loans with an aim to apply for an increased amount of another loan from lending commercial banks.

## **5.1.2 Loan-Related Characteristics**

### **a. Screening**

The response rates provided by survey respondents suggested that the practice of enforcing properly endorsed due diligence and also the efforts laid down at the early stage of pre-approval of borrower selection process can heavily enhance any lending financial institutions the possibility of having successfully repaid term loans repayment performances. That is, sorting out or rejecting highly risky term loans applications from the good ones can be resulted in fully repaid term loans.

### **b. Demand for Another Loan**

The study also suggested that borrowers of commercial banks usually tend to fully repay the outstanding balance of their existing term loans with an aim to apply for another increased loans amount. That is, the need to apply for an improved amount of future loans could motivate the borrowers so as to properly repay back the remaining balance of previously disbursed term loans.

### **c. Utilization of Loan**

Furthermore, the study found out that proper utilizations of disbursed term loans only for the purpose they originally approved by credit management of lending bank can lead to successfully

settled term loans repayment performance. This implies, proper utilization of granted term loan without diverting to any purpose other than that it has originally been disbursed can be resulted into fully repaid term loans repayment performance.

**d. Size of Loan**

The study also showed that that granting sufficient amount of term loans considering the actual repayment capacity of a borrower can be resulted in successfully settled term loans repayment performance.

**e. Length of Loan Contract**

Once again the study revealed that extending term loans considering adequate repayment period that would match with the cash flow of borrowers can lead to successfully settled term loans repayment performance.

## **5.2 CONCLUSIONS**

The main objective of this study was to access factors that can lead to fully repaid term loans repayment performance – considering the case of Oromia International Bank Share Company.

After developing the structured questionnaires needed for this study, first-hand data was collected from purposively selected sample of 196 survey respondents of OIB employees who directly engaged in a day-to-day loan related banking operations: loan processing, credit management, credit decisions and credit monitoring and follow-ups activities.

The five point Likert Scale technique was adopted so as to quantitatively measure attitudinal responses of survey participants with respect factors of the study. The process of data analysis was then conducted by employing some basic descriptive statistics including frequency,

percentage, the mean and standard deviation – which in fact simplified with the help of the statistical package known as the SPSS.

The study found that the following were borrower- and loan-related factors of the study that have been rated (by survey respondents) considering their relative importance towards causing settled term loans repayment performances – the case of OIB. The Mean and respective standard deviation were adopted in an attempt to compare and judge the importance level of those factors of the study (in descending order) towards leading to settled term loans performance of OIB.

In this regard, the study revealed that business experience 4.34(.745), utilization of loan 4.11(.991), collateral strength 4.02(1.338), business type 3.99(.953), screening 3.99(1.1), credit history 3.95(1.184), demand for other loan 3.74(.904), loan size 3.73(.968), length of loan contract 3.58(.933) and education level 2.68(1.165) were borrower- and loan- related factors that were respectively rated in terms of the level of their relative importance towards leading to successfully settled or collected term loans performances of OIB.

Based on the descriptive results discussed just above, therefore, the study concluded that borrowers' business experience rated highly as very important factor that frequently resulted in causing settled term loans repayment performance of OIB followed respectively by other factors of the study such as utilization of loan, collateral strength, business type, screening, credit history, demand for other loan, loan size and length of loan contract; whereas borrowers' education level rated relatively as the least important factors in causing successfully settled term loans performances of the bank under study.

### 5.3 RECOMMENDATIONS

- i. Based on the findings and conclusions, the study recommends that each OIB staff including loan officer, credit analysts, customer relation manager, branch manager and each credit committee of same bank such as branch credit committee, district credit committee, department credit committee and management credit committee that operate with loan administrations should be informed about the relative importance of factors of the study towards causing successfully settled term loans repayment performances of the bank under consideration.
  
- ii. The study further recommends that, after properly screening out risky loan applications, management credit committee of the bank under study should extend sufficient loans amount along with reasonably enough repayment period by giving priority to such borrowers of the bank that could demonstrate adequate business experiences in running profitable or less risky business types; properly utilize the loan for purpose granted only without diverting to other risky purpose; possess valuable assets that could be offered as strong collaterals relative to the size of requested loans and also got good track of credit record in the past with any lending commercial banks of the country.

### 5.4 FUTURE RESEARCH RECOMMENDATIONS

Considering time and resource constraints, this study attempted to examine factors that can lead to successfully settled term loans repayment performance of OIB, by using data collected from employees of same bank who work with loan related administrations. Thus, when possible, the study recommends for the need of conducting further studies on the same or similar topic by collecting the required data directly from borrowers themselves.

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## Appendices - 1: Survey Questionnaire



**Addis Ababa University**

**College of Business and Economics**

**Department of Accounting and Finance**

### **Questionnaire on Term Loans Repayment Performance – case of OIB**

As part of my MBA thesis major in Finance, I am conducting survey to collect data that required for the proposed study entitled *Assessment on Factors Leading to Settled Term Loans Performance – considering the case of OIB*.

This Likert Scale survey is purely academic and any information provided will be treated confidentially and used only for academic purpose which is broadly categorized into two main parts: Part I and Part II. And your valuable participation is sought considering your overall banking experience, in general, and/or your loan-related knowledge at OIB, in particular.

I am, thus, kindly asking you to take few moments and provide your thoughtful opinions on how you think the relative importance of the given survey statements regarding the performance of successfully settled term loans – considering the case of OIB.

#### **General Instructions:**

- b) Please *rate* each survey question considering the extent of its relative importance;
- c) Please *make a tick mark* “√” *only once* against your choices;
- d) Please provide your *honest and thoughtful responses*.

**Your participation is highly appreciated!**

Survey ID \_\_\_\_\_

*This survey supposed to employ the Likert-Scale method with five point scales. Considering the degree of their relative importance, therefore, please rate each of the following survey statements (from 1 to 20) by putting a **tick mark**(√) against **any one** of the corresponding point scales (from 1 to 5) of your choice.*

<b>Factors causing Fully Repaid Term Loans Repayment Performance – case of Borrowers at OIB</b>					
<b>Statement</b>	<b>Not Important (1=NI)</b>	<b>Slightly Important (2=SI)</b>	<b>Moderately Important (3=MI)</b>	<b>Important (4=I)</b>	<b>Very Important (5=VI)</b>
<b>I. Borrower - related Factors</b>					
<b>a</b>	<b>Credit history</b> of a borrower with other lending commercial banks including OIB.				
<b>b</b>	Borrower's <b>experience</b> in running the business he/she/it actually engaged in.				
<b>c</b>	Borrower's education level				
<b>d</b>	<b>Type of business</b> sector in which a borrower is engaged				
<b>e</b>	Borrower's <b>collateral strength</b> to apply for another or additional loan – after getting settled existing loan outstanding balance.				
<b>II. Loan - related Factors</b>					
<b>a</b>	<b>Screening</b> bad credit applications with credit risks from the good ones based on reliable information collected				

	about prospective borrowers in line with the minimum eligibility criteria.					
<b>b</b>	Borrowers' desire to apply for another or <b>additional loan</b> after fully repaying outstanding balance of existing loan.					
<b>c</b>	Borrower's <b>loan utilization</b> solely for the purpose it originally disbursed for.					
<b>d</b>	Sufficient <b>amount of loan</b> disbursed relative to borrower's credit demand.					
<b>e</b>	<b>Length of loan contract</b> agreed between the bank and the borrower during which the extended loan is expected to fully repay back.					

**MANY THANKS**

## Appendix - 2: Descriptive Statistics

Descriptive Statistics						
	N	Minimum	Maximum	Sum	Mean	Std. Deviation
Business Experience	196	2	5	851	4.34	.745
Utilization of Loan	196	1	5	817	4.17	.815
Collateral Strength	196	1	5	787	4.02	1.338
Type of Business Sector	196	1	5	783	3.99	.953
Screening	196	1	5	782	3.99	1.100
Credit History	196	1	5	774	3.95	1.184
Demand for another Loan	196	1	5	734	3.74	.904
Size of Loan	196	1	5	731	3.73	.968
Length of Loan Contract	196	1	5	701	3.58	.933
Education Level	196	1	5	525	2.68	1.165
Valid N (list wise)	196					

Source: Survey Output using SPSS