

**CREDIT POLICIES AND LOAN RECOVERY FROM CUSTOMERS IN COMMERCIAL BANKS IN
UGANDA; A CASE STUDY OF EQUITY BANK,
KASANGATI BRANCH**

Kigga Noah¹, Irumba Alex², Omendo Vincent³

1, 2, 3 Metropolitan International University

ABSTRACT

The study aimed at credit policies and loan recovery from customers in commercial banks in Uganda; a case study of equity bank, Kasangati branch and it was guided by the following objectives; To establish the effect of Credit terms on loan recovery in Equity Bank Kasangati Branch, to assess the effect of credit standards on loan recovery in Equity Bank Kasangati Branch and to find out the relationship between collection procedures and loan recovery in Equity Bank Kasangati Branch. The study used a cross sectional design. The cross-sectional survey was used because it captures the state of the variable at a particular point in time in different areas of an organization. Therefore, cross sectional involved triangulation (use of multiple data collection techniques simultaneously) i.e., utilizing both quantitative and qualitative approaches at the same time. The findings indicated that credit management policies in terms credit terms, credit standards and Collection Procedures explain 39.7% of the variance in the loan portfolio performance (Adjusted R Square = .392). Results further indicated that Credit Standards (Beta = .443, sig. < .01) were a better predictor of loan portfolio performance than the Collection Procedures (Beta = .303, sig. < .01). The regression model was significant at the 99% confidence level. The costs associated with obtaining a loan, that are often incurred prior to disbursement affects both projected cash flow and the borrowers' morale regarding settlement of the facility. The study recommends that Equity bank desist from charging full amount of commitment fee on loan amount every time a new facility is sanctioned to a previous borrower. Where a previous limit is increased upon renewal, only the difference should be charged.

Key words: credit policies, loan recovery, customers and commercial banks

Background to the Study

A credit policy is defined as an institution's method of analyzing credit requests and decisions criteria for accepting or rejecting credit application (Alex & Kazaara, 2023). A credit policy is the blue print used by a business in making its decision to extend credit to a customer. The primary goal of credit policy is to avoid extending credit to customers who was unable to clear their accounts (K. Paul et al., 2023). According to Gitman (2019) Credit monitoring is a service through which a monitoring firm watches its credit reports for changes. Credit

monitoring tool allows banks and financial institutions to Manage, Monitor and Control performance of their assets (Loans) in a proactive manner to prevent them from turning into non-performing assets (NPA) (Alex et al., 2023). Credit management is the executive responsibility of determining customers' credit ratings as part of the credit control function (Ramadhan et al., 2023). Performance refers to the accomplishment of a given task measured against pre-set known standards of accuracy, completeness, fast and

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speeds in a contract (Oromo et al., 2023). Performance is deemed to be fulfilment of an obligation in a manner that releases the performer from all the liabilities under the contract (Business Dictionary. Com). According to Gitman (2019), credit terms are terms like payback period, interest rate charged on a loan, discounts especially cash discounts are some of the variables comprising credit terms (Musaibah et al., 2023). Any detection of laxity and negative changes highly affect the banks' lending, profits, collection period and other expenses associated with bad loans. The decision to change any of the mentioned variables /components of credit terms depend on the direction and the degree of change (Derrick et al., 2023). Equity Bank Kasangati Branch is one of the leading commercial banks and one of the active institutions in loan extension to the entire community in Kasangati, which was created in 2018 when the Equity Bank Group purchased Uganda Microfinance Limited, a Tier II, Ugandan Microfinance Company for an all-share price valued at US\$27 million. According to Annual Report (2019) (Pdu et al., 2023), the loan portfolio

has grown from 193 billion to 287 billion (48.2%). The loan portfolio is a major contributor to the income generated by Equity Bank Kasangati Branch and if major steps are not taken to improve its performance through the creation of credit management policies, the survival of the Bank was at a Risk (Richard, B, & T, 2022). Unfortunately, it appears the bank has failed to achieve its planned loan recovery thus causing failure to recover the loaned money. According to its financial report 2018/2019, the bank continued to face similar challenges of loan default like any other financial institution in Uganda (Richard, B, Janice, et al., 2022). The money lent to customers are often paid late or not paid at all leaving the bank exposed to default risk. It is important to note that despite the rigorous screening undertaken in the credit assessment process which includes among others; proof that customer does not have other credit obligation, analysis of their account performance, sustainability of their income level, security and ability to pay (International Credit Manual, 2017) (Richard et al., 2023); on average 5% of the total loan book had to be provided for fully.

Statement of the problem

Equity bank limited is one of the banks that was established to champion social economic prosperity in Africa through offering financial services that empower people socially and economically (Faridah et al., 2023). In an effort to meet the needs of its clients, the bank has set up fully mortgaged branches in various parts of the country such as Kasangati Branch. In the case of Equity Bank Kasangati Branch, loan income accounts for an average of 75-80% of total bank income (Oromo et al., 2023). There are credit management policies and procedures in the branch that have been designed to guide credit delivery and ensure prudent credit operations as a way to improve credit collection (Derrick et al., 2023). The credit policy clearly determines how the bank acquires new customers, what information it needs, how many loans it is willing to offer in time and value (Kazaara & Christopher, 2023). It shows customers that you care enough to explain exactly how you do business from the start. It improves internal communication when everyone knows exactly what to do and how to do it (Nelson, Christopher, Teddy, et al., 2022). It clarifies the work for credit and sales to work together in a

positive environment for business growth. However, despite the presence of a robust credit policy, the bank continues to have bad debts, low loan recovery, the implementation of credit policies is costly and requires a lot of technical support (Polycarp et al., 2023). Credit policies sometimes prevent some potential customers from getting loans because they do not have collateral (Nshekanabo, 2018). Kakuri, 2018 also notes that implementing credit policies is costly and therefore reduces the profitability of banks' loan portfolios (Isaac et al., 2023). Despite all the above restrictions, every commercial bank continues to maintain a strict credit policy. This study will therefore seek to examine the role of credit policies in customer credit recovery in commercial banks in Uganda using a case study of Equity Bank, Kasangati Branch.

Research Objectives

1. To establish the effect of Credit terms on loan recovery in Equity BankKasangati Branch.
2. To assess the effect of credit standards on loan recovery in Equity BankKasangati Branch.
3. To find out the relationship between collection procedures and loan recoveryin Equity Bank Kasangati Branch.

Methodology

The study used a cross sectional design. The cross-sectional survey was used because it captures the state of the variable at a particular point in time in different areas of an organization. Therefore, cross sectional involved triangulation (use of multiple data collection techniques simultaneously) i.e., utilizing both quantitative and qualitative approaches at the same time. Quantitative approach was used to gather information for proper analysis and making appropriate inferences, generalizations and conclusions to the population (Mugenda & Mugenda, 2019). Qualitative approach was employed so as to capture the information on attitudes and behavior hence supplementing information from quantitative sources (Arya & Yesh, 2011). The study population comprised of 420 respondents (primary data) who was both customers andemployees in Equity bank Uganda. The study involved 10 senior credit officers, 10 branch support team, 2 branch loan officers and 398 loan customers.

Sample size and selection Table 1: Sample size and selection

Category	Target Population	Sample Size	Sampling Technique
Senior Credit Officers	10	10	Census
Branch support team	10	10	Census
Branch Loan Officers	2	2	Census
Loan Customers	398	196	Simple random sampling
Total	420	218	

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Source: Branch Credit Manager

A representative sample of 218 respondents was selected from a population of 420, comprising of senior credit officers, branch support team, branch loan officer, loan customers of Kasangati branch. The selection of the sample size was based on the Krejcie and Morgan 1970 table (Amin, 2015) for determining sample size for research activities. A structured questionnaire was developed and administered to the respondents to extract information on their opinions on the effect of credit management policies on loan recovery. The reason for selecting the questionnaire was because it was an appropriate method for collecting data, it offers greater assurance of anonymity, could be filled at the respondent's convenience hence increasing chances of getting valid information and it was a cheap way of collecting data from a wide geographical area (Amin 2015). Data collected from the field was sorted, coded by assigning themes to the study variables and later entered into a computer using statistical software (SPSS) that enabled analysis. The data was able to answer the research questions. The first editing was done in the field and scrutinizing of the completed questionnaire. It was done on a daily basis after the interviews and at times on spot. After fieldwork, central editing was then done to review and edit when all questionnaires were completed and returned to the researcher. Corrections for wrong entries and omissions were then done. After central editing, questionnaires were brought back to where computer data entry was done into a statistical package for social scientist (SPSS) software (Nelson, Christopher, & Milton, 2022).

SPSS was used to capture data, data analysis and management. Tables were generated and these was exported from SPSS into the word document and interpretation was done. In addition, the researcher will describe or summarize data using descriptive statistics. **RESULTS**

Table 1: Respondents' attitude on the effect of Credit terms on loan portfolio performance in commercial banks (N=192)

Credit terms on loan portfolio performance	Responses in percentages (%)						
	SD	D	NS	A	SA	Mean	SD
There is a credit policy at the bank	1.4 % (3)	8.2% (16)	5.5% (11)	57.5% (110)	27.4 % (52)	3.98	.894
The credit policy is revised regularly by the bank	2.7% (5)	2.7% (5)	9.6% (19)	76.7% (147)	8.2% (16)	3.68	.771
Credit terms are determined by the bank managers	1.4% (3)	9.6% (19)	11% (21)	69.9% (134)	8.2% (16)	3.73	.811
Credit terms are determined in consultation with the customers	5.5% (11)	5.5% (11)	16.4 % (32)	52.1% (100)	20.5 % (41)	3.75	1.02

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			(31)		(39)		
Credit terms are determined in line with Bank of Uganda lending/credit policy.	2.7% (5)	8.2% (16)	16.4% (31)	60.3% (116)	12.3% (24)	3.72	.882
Credit terms at Equity bank are favorable and affordable compared to other banks	0	4.1% (8)	13.7% (26)	69.9% (134)	12.3% (24)	3.90	.648
Loans are disbursed according to the competence of the clients	1.4% (3)	2.7% (5)	5.5% (11)	68.5% (132)	21.9% (41)	4.05	.717
Equity bank determines interest rates by looking at the cost of production, inflation rates and loan loss provisions	5.5% (11)	12.3% (24)	13.7% (26)	57.5% (110)	11% (21)	3.55	1.03
The credit worthiness of the customer is assessed before giving him or her a loan	6.8% (13)	4.1% (8)	17.8% (34)	53.4% (103)	17.8% (34)	3.71	1.02
Equity bank considers the applicant's	1.4% (3)	11% (21)	11% (21)	65.8% (126)	11% (21)	3.74	.854

Source: Primary data, 2022

Table 1 above represents the respondents' attitude on the effect of Credit terms on loan portfolio performance in commercial banks. The study used 10 questions based on a five Likert scale to measure this variable. When the respondents were asked to give their attitudes whether there is a credit policy at the bank, out of the 192 respondents who answered the questionnaire; 52 (27.4%) strongly agreed, 110 (57.5%) agreed, 11 (5.5%) were not sure, (16) 8.2% disagreed and 3 (1.4%) strongly disagreed. This indicated that there is a credit policy at the bank since the majority, 163 (84.9%) agreed to this (Alex & Kazaara, 2023).

On whether the credit policy is revised regularly by the bank; 16 (8.2%) strongly agreed, 147 (76.7%) agreed, 19 (9.6%) were not sure, 5 (2.7%) disagreed and 5 (2.7%) strongly disagreed, which showed that the credit policy is revised regularly by the bank. This implied that overall, the bank was performing fairly well is an average response of 2.13, on the whether the bank uses conservative approach in its loan analysis, being aggressive in its lending approaches, bank not lending to clients with a high payment risk, emphasis in evaluation is put on the quality of assets, bank possesses a credit policy hand book for guidance in giving out loans, and the bank is

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consistent with its loan analysis approach (Faith et al., 2023).

Asked whether Credit terms are determined by the bank managers; 16 (8.2%) strongly agreed, 134 (69.9%) agreed, 21(11%) were not sure, 19 (9.6%) disagreed and 3 (1.4%) strongly disagreed. This implied that Credit terms are determined by the bank managers since 78.1% agreed to this (Lucky et al., 2023). On whether the Credit terms are determined in line with Bank of Uganda lending/credit policy; 12.3% strongly agreed, 60.3% agreed, 31 (16.4%) were not sure, 16 (8.2%)disagreed, and 5 (2.7%) strongly disagreed. This implied that Credit terms are determined in line with Bank of Uganda lending/credit policy.

On the issue of whether Credit terms at Equity bank are favorable and affordable compared to other banks; (24) 12.3% strongly agreed, 134 (69.9%) agreed, 26 (13.7%) were not sure and 8 (4.1%) disagreed. This meant that Credit terms at Equity bank are favorable and affordable compared to other banks (Ronald et al., 2023).

On the question of whether Loans are disbursed according to the competence of the clients; 21.9% strongly agreed, 68.5% agreed, 11 (5.5%) were not sure, 5 (2.7%) disagreed, and 3 (1.4%) strongly disagreed. This revealed that Loans are disbursed according to the competence of the clients since 90.4% agreed to this (Innocent et al., 2023).

On whether Equity bank determines interest rates by looking at the cost of production, inflation rates and loan loss provisions; 34 (17.8%) strongly agreed, 103 (53.4%) agreed, 34 (17.8%) werenot sure, 8 (4.1%) disagreed and 6.8% strongly disagreed. This serves to explain that Equitybank determines interest rates by looking at the cost of production, inflation rates and loan loss provisions (Moses et al., 2023).

On this issue of whether the credit worthiness of the customer is assessed before giving him or her loan; 21 (11%) strongly agreed, 126 (65.8%) agreed, 21 (11%) were not sure, 21 (11%) disagreed and 3 (1.4%) strongly disagreed. This showed that a good number of respondents agreed that the credit worthiness of the customer is assessed before giving him or her loan since 78.8% agreed to this. This meant that credit standards affect credit terms which implies that if the bank put a lot of emphasis on nurturing borrower relationships, this would enhance Loan portfolio performance (Mark et al., 2023)

Results of interviews with key informants further established that; the lifeblood of each lending institution is its Loan portfolio and the success of the institution depends on how well that portfolio is managed. Therefore, any study of a credit institutions loan portfolio must be based on the financial characteristics of the clients and on the financial sector, economic and competitive conditions and commonly used lending practices within the territory served by the institution, (Respondent) (Faridah et al., 2023).

Credit terms positively affect loan portfolio performance

Table 2: Effect of Credit terms on loan portfolio performance in commercial banks

		Credit Terms	Loan Portfolio Performance
Credit Terms	Pearson Correlation	1	.259**
	Sig. (2-tailed)		.000

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	N	192	192
Loan PortfolioPerformance	Pearson Correlation	.259**	1
	Sig. (2-tailed)	.000	
	N	192	192
**. Correlation is significant at the 0.01 level (2-tailed).			

Source: Primary data, 2022

Correlation results indicated a significant positive relationship between Credit terms and Loan portfolio performance ($r = .259^{**}$, $p < .01$) (Nelson et al., 2023). This is confirmation that borrower values, attitudes, experience and beliefs had a positive effect on the improvement of loan repayment rate, reduction on the arrears rate and portfolio at risk of the bank. The results imply that if credit terms were in favour of the bank's credit terms, this would positively affect Loan portfolio performance.

Regression Analysis

Table 3: Effect of Credit Terms to Loan Portfolio Performance in commercial banks

ANOVA^b

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	1.037	1	1.037	13.625	.000 ^a
Residual	14.458	190	.076		
Total	15.495	191			

The independent variable, credit terms, was statically significant in affecting loan portfolio performance in commercial banks, $f = 13.625$ (<0.01) as shown in table above. This implies that there is a meaningful positive relationship between the independent variable credit terms and the dependent variable loan portfolio performance in commercial banks (Tasha et al., 2023).

Table 4: Causal relationship between Credit Terms and Loan Portfolio Performance in commercial banks

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.879	.060		14.595	.000
Credit Terms	.164	.045	.259	3.691	.000

a. Dependent Variable: Loan Portfolio Performance

The regressions result from the table above shows that a unit change in Credit terms brings about .879 or 87.9 % change in Loan Portfolio Performance in commercial banks. Hence, H1 which states that Credit terms positively affect loan portfolio performance in commercial banks is supported and accepted (Kazaara & Christopher, 2023).

Table 5: Model Summary between Credit Terms and Loan Portfolio Performance in commercial banks

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.259 ^a	.067	.062	.27585

a. Predictors: (Constant), Credit Terms

In reference to the above model summary, this shows that Credit terms account for a variation in performance at 62% (Adjusted R square) Hence, H1 which states that credit terms positively affect loan portfolio performance in commercial banks is supported and accepted.

The Effect of Credit Standards on Loan Portfolio Performance in commercial banks

Table 6: Effect of Credit Standards on Loan Portfolio Performance in commercial banks (N=192)

Effect of Credit Standards on Loan Portfolio commercial banks	Responses in percentages (%)					Mean	SD
	SD	D	NS	A	SA		
Clients are frequently visited by staffs of Equity bank to strengthen	1.4 % (3)	8.2% (16)	5.5% (11)	57.5 %	27.4 %	4.29	1.62

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monitoring.				(110)	(52)		
Clients provide financial statements in order to be analyzed as regards to the performance trends of their business activities	2.7% (5)	2.7% (5)	9.6% (19)	76.7% (147)	8.2% (16)	3.71	1.60
Equity bank visits clients frequently at their site in order to strengthen monitoring of the loans	1.4% (3)	9.6% (19)	11% (21)	69.9% (134)	8.2% (16)	4.29	0.89
Credit standards are periodically reviewed to include any updates of the bank	5.5% (11)	5.5% (11)	16.4% (31)	52.1% (100)	20.5% (39)	2.44	1.21
Demonstration of integrity and commitment to honor the repayment of the loan with interest is one of the credit standards.	2.7% (5)	8.2% (16)	16.4% (31)	60.3% (116)	12.3% (24)	3.17	1.17
There is evaluation of collateral of the borrower to justify that its quality and value is adequate to redeem the debt in case the bank has to recover loan from selling the collateral.	0	4.1% (8)	13.7% (26)	69.9% (134)	12.3% (24)	3.50	1.60
Equity bank makes the borrower aware of important instructions relating to the credit disbursement modalities	1.4% (3)	2.7% (5)	5.5% (11)	68.5% (132)	21.9% (41)	3.86	0.64
Equity bank sends a credit officer/agent to the client with a disbursement letter which spells out the amounts and currency of disbursement	5.5% (11)	12.3% (24)	13.7% (26)	57.5% (110)	11% (21)	3.07	0.86
The bank suspends disbursement if a clients does not fulfill the conditions specified in the loan agreement	6.8% (13)	4.1% (8)	17.8% (34)	53.4% (103)	17.8% (34)	3.71	1.60
A monitoring mechanism is put in place to ensure that the borrower paysthe loan in time	1.4% (3)	11% (21)	11% (21)	65.8% (126)	11% (21)	3.72	1.60

The bank verifies and satisfies that borrower's activity is progressing in accordance with the business plan.	1.4% (3)	9.6% (19)	11% (21)	69.9% (134)	8.2% (16)	3.05	0.59
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Source: Primary Data

The results in the Table 6 present the respondents' attitudes on the effect of credit standards on loan portfolio performance in commercial banks. The respondents were asked whether Clients are frequently visited by staffs of Equity bank to strengthen monitoring, the respondents strongly agreed at a (Mean = 4.29) (Innocent et al., 2023), Clients provide financial statements in order to be analyzed as regards to the performance trends of their business activities at a (Mean = 3.71), Equity bank visits clients frequently at their site in order to strengthen monitoring of the loans at a (Mean = 4.29), however they disagreed that Credit standards are periodically reviewed to include any updates of the bank at a (Mean = 2.44). On the contrast the majority of the respondents agreed that demonstration of integrity and commitment to honor the repayment of the loan with interest is one of the credit standards. at a (Mean = 3.17) (Musaibah et al., 2023), there is evaluation of collateral of the borrower to justify that its quality and value is adequate to redeem the debt in case the bank has to recover loan from selling the collateral. at a (Mean = 3.50), Equity bank makes the borrower aware of important instructions relating to the credit disbursement modalities at a (Mean = 3.86), Equity bank sends a credit officer/agent to the client with a disbursement letter which spells out the amounts and currency of disbursement at a (Mean = 3.07), The bank suspends disbursement if a clients does not fulfill the conditions specified in the loan agreement at a (Mean = 3.71) (Brighton et al., 2023), A monitoring mechanism is put in place to ensure that the borrower pays the loan in time at a (Mean = 3.72) and lastly that The bank verifies and satisfies that borrower's activity is progressing in accordance with the business plan at a (Mean = 3.05) respectively. This implied that most of the clients don't provide the financial statements of their businesses implying that the bank is not able to determine the credit worthiness of its clients to make credit decisions hence one of the causes of the poor loan portfolio performance in the bank since client standards and screening helps to establish whether the loan applicant will afford to service and repay the loan (Ntirandekura & Christopher, 2022).

Results from individual interviews conducted with key informants did not differ from those discussed above. They noted that credit standards include client screening which involves obtaining information on loan applicants and then using the information to analyze and determine the credit worthiness of the applicant to make credit decisions. Information is obtained from the applicant's financial statements, credit rating reports, trade checking and experience in business (Annet et al., 2023).

Credit standards positively affect loan portfolio performance

These findings were further analyzed using Pearson correlation and later Regression analysis to establish the effect of credit standards on loan portfolio performance in commercial banks was carried out using Pearson's correlation.

Table 7: Correlation between the effect of Credit Standards on Loan Portfolio Performance in commercial banks

		Credit Standards	Loan Portfolio Performance
Credit Standards	Pearson Correlation	1	.845**
	Sig. (2-tailed)		.000
	N	192	192
Loan Portfolio Performance	Pearson Correlation	.845**	1
	Sig. (2-tailed)	.000	
	N	192	192

***. Correlation is significant at the 0.01 level (2-tailed).*

The results in the Table 7 above reveal that Credit standards had a positive correlation with the Loan Portfolio Performance in commercial banks ($r = 0.845^{**}$ $P < 0.01$). This means that the two variables are positively related. This supports the hypothesis that Credit standards significantly affect Loan Portfolio Performance in commercial banks since the p value 0.00 is less than 0.01. This implies that the Credit standards positively affect Loan Portfolio Performance in commercial banks (District et al., 2023).

Table 8: Effect of Credit standards to Loan Portfolio Performance in commercial banks ANOVA^b

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	11.060	1	11.060	473.845	.000 ^a
Residual	4.435	190	.023		
Predictors: (Constant), Credit Standards					
Dependent Variable: Loan Portfolio Performance	15.495	191			
Total					

The independent variable, Credit standards, was statically significant in affecting Loan Portfolio Performance in commercial banks, $F = 473.845 (< 0.01)$ as shown in table above. This implies that there is a meaningful positive relationship between the independent variable Credit standards and the dependent variable Loan Portfolio Performance in commercial banks.

Table 9: Causal relationship between Credit standards and Loan Portfolio Performance in commercial banks

Coefficients^a

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Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.261	.040		6.589	.000
Credit Standards	.739	.034	.845	21.768	.000

a. Dependent Variable: Loan Portfolio Performance

The regressions result from the table above shows that a unit change in Credit standards brings about .261 or 26.1% change in Loan Portfolio Performance in commercial banks. Hence, H₂ which states that Credit standards positively affect loan portfolio performance in commercial banks is supported and accepted.

Table 10: Model Summary between Credit standards and Loan Portfolio Performance in commercial banks

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.845 ^a	.714	.712	.15278

a. Predictors: (Constant), Credit Standards

In reference to the above model summary, this shows that there is significantly positive relationship between independent variable Credit standards account for a variation in performance at .712% (Adjusted R Square). Hence, H₂ which states that Credit standards positively affect loan portfolio performance in commercial banks is supported and accepted.

The Relationship between Collection Procedures and Loan Portfolio Performance in commercial banks

Table 11 Respondents' attitude on the effect of Collection Procedures and Loan Portfolio Performance in commercial banks

	Responses in percentages (%)				
	SD	D	NS	A	SA
The bank has a loan appraisal process system which is implemented in the collection procedures to influence Loan Portfolio Performance in commercial banks	1.4 % (3)	8.2% (16)	5.5% (11)	57.5% (110)	27.4% (52)
The bank has a well set up body to deal with debt collection	2.7% (5)	2.7% (5)	9.6% (19)	76.7% (147)	8.2% (16)
There is a relationship between Collection Procedures and Loan Portfolio Performance in Equity bank	1.4%	9.6%	11%	69.9%	8.2%

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	(3)	(19)	(21)	% (134)	(16)
Rigid approval and collection procedures affects Loan Portfolio Performance in Equity bank	5.5% (11)	5.5% (11)	16.4 % (31)	52.1 % (100)	20.5 % (39)
The bank observes the collection period given to each client.	2.7% (5)	8.2% (16)	16.4 % (31)	60.3 % (116)	12.3 % (24)
There are systematic written down steps in the handling of defaulting customers.	0	4.1% (8)	13.7 % (26)	69.9 % (134)	12.3 % (24)
Loan default rates are as a result of poor collection procedures in the bank	1.4% (3)	2.7% (5)	5.5% (11)	68.5 % (132)	21.9 % (41)
Clients are encouraged to reconcile their bank statements with the bank	5.5% (11)	12.3 % (24)	13.7 % (26)	57.5 % (110)	11% (21)
The bank usually recovers 100% of the total loan due for collection	6.8% (13)	4.1% (8)	17.8 % (34)	53.4 % (103)	17.8 % (34)

Source: Primary data

In regard to the respondents' attitude on the effect of Collection Procedures and Loan Portfolio Performance in commercial banks, responses were as shown in the Table 11 above. The study used 10 questions based on a five Likert scale to measure this variable (Christopher, Moses, Muhindo, & Nturanabo, 2022).

When the respondents were asked to give their opinion on whether the bank has a loan appraisal process system which is implemented in the collection procedures to influence Loan Portfolio Performance in commercial banks, out of the 192 respondents who answered the questionnaire; 52 (27.4%) strongly agreed, 110 (57.5%) agreed, 11 (5.5%) were not sure, 16 (8.2%) disagreed and (3)1.4% strongly disagreed. This indicated that the bank has a loan appraisal process system which is implemented in the collection procedures to influence Loan Portfolio Performance in commercial banks since the majority, 84.9% agreed to this (W. Paul & Kazaara, 2023). On whether the bank has a well set up body to deal with debt collection; (16) 8.2% strongly agreed, 147 (76.7%) agreed, 19 (9.6%) were not sure, 5 (2.7%) disagreed and 5 (2.7%) strongly disagreed, which showed that a good number of respondents agreed (Christopher, Moses, Muhindo, & Nturanabo, 2022).

Asked whether there is a relationship between Collection Procedures and Loan Portfolio Performance in Equity bank; 8.2% strongly agreed, 69.9% agreed, 11% were not sure, 9.6% disagreed and 1.4% strongly disagreed. This implied that there is a relationship between Collection Procedures and Loan Portfolio Performance in Equity bank since 78.1% agreed to this (Christopher, Moses, Muhindo, Muhammad, et al., 2022).

On whether rigid approval and collection procedures affects Loan Portfolio Performance in Equity bank; 12.3%

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strongly agreed, 60.3% agreed, 16.4% were not sure, 8.2% disagreed, and 2.7% strongly disagreed. This implies that a rigid approval and collection procedures affects Loan Portfolio Performance in Equity bank (Christopher, Moses, Muhindo, & Komunda, 2022). Therefore, a credit policy forms part of bank performance since this attributed by most scholars who have analyzed credit policy but little has been done on analyzing the relationship between credit policy and performance in banks. This relationship is vital since developmental institutions are now being run mostly on commercial principles rather than as relief, their customers must know from the onset that he or she has to pay up the money borrowed or risk the undesirable consequences of defaulting (Moses et al., 2023).

Collection Procedures positively affect loan portfolio performance

Table 12: Correlation between the effect of Collection Procedures on Loan Portfolio Performance in commercial banks

		Collection Procedures	Loan Portfolio Performance
Collection Procedures	Pearson Correlation	1	.169**
	Sig. (2-tailed)		.019
	N	192	192
Loan Portfolio Performance	Pearson Correlation	.169**	1
	Sig. (2-tailed)	.019	
	N	192	192

** . Correlation is significant at the 0.01 level (2-tailed).

The results in the Table 12 above reveal that Collection Procedures had a positive correlation with the Loan Portfolio Performance in commercial banks ($r = 0.169^{**}$ $P < 0.01$). This means that the two variables are positively related. This supports the hypothesis that Collection Procedures significantly Loan Portfolio Performance in commercial banks. This implies that the Collection Procedures positively affect Loan Portfolio Performance in commercial banks. The relationship is however weak and not significant since the p.value of 0.019 is greater than 0.01

Table 13: Effect of Collection Procedures to Loan Portfolio Performance in commercialbanks

ANOVA^b

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	.758	1	.758	5.556	.019 ^a
Residual	25.909	190	.136		
Total	26.667	191			

Predictors: (Constant), Collection Procedures

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Dependent Variable: Loan Portfolio Performance

The independent variable, Collection Procedures, was statically significant in affecting Loan Portfolio Performance in commercial banks, $F = 1.556$ (<0.01) as shown in table above. This implies that there is a meaningful positive relationship between the independent variable Collection Procedures and the dependent variable Loan Portfolio Performance in commercial banks.

Table 14: Causal relationship between Collection Procedures and Loan Portfolio Performance in commercial banks**Coefficients^a**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.920	.108		8.538	.000
Collection Procedures	.227	.096	.169	2.357	.019

a. Dependent Variable: Loan Portfolio Performance

The regressions result from the table above shows that a unit change in Collection Procedures brings about .920 or 92% change in Loan Portfolio Performance in commercial banks. Hence, objective 3 which states that Collection Procedures positively affect loan portfolio performance in commercial banks is supported and accepted.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.169 ^a	.028	.023	.36927

a. Predictors: (Constant), Collection Procedures

In reference to the above model summary, this shows that independent variable credit standards account for a variation of 2.3% on the dependent variable loan portfolio performance. Hence, H3 which states that Credit standards positively affect loan portfolio performance in commercial banks is supported and accepted.

Dependent Variable (Loan Portfolio Performance)**Table 15: The minimum and maximum range and mean results of respondents rating on Loan Portfolio Performance in Equity**

Loan Portfolio Performance	Min.	Max.	Mean
Loan Loss Rate is one of the ways of determining Loan Portfolio Performance in the bank	1.00	5.00	3.71
In Equity Portfolio at Risk indicates loan Portfolio Performance	1.00	5.00	4.29
Client Affordability to Repay exists in Equity bank	1.00	5.00	3.86
Number of out Standing Loans increases Portfolio Performance of Equity bank	1.00	5.00	3.79
Loan recoveries reduces Portfolio Performance in Equity bank	1.00	5.00	3.50

Source; Primary Data, 2022

In regard to Loan Portfolio Performance in Equity bank, response was as shown in Table 20 above. Results showed that Loan Loss Rate is one of the ways of determining Loan Portfolio Performance in the bank at a (Mean = 3.71), In Equity Portfolio at Risk indicates loan Portfolio Performance (Mean = 4.29) (Christopher, Moses, Muhindo, & Muhammad, 2022), Loan recoveries reduces Portfolio Performance in Equity bank (Mean= 3.50), Client Affordability to Repay exists in Equity bank at a (Mean 3.86) and that the number of out Standing Loans increases Portfolio Performance in Equity bank at a (Mean = 3.79) respectively. This implies that good loan portfolio managers have to concentrate most of their effort on prudently approving loans and carefully monitoring loan performance. Although these activities continue to be mainstays of loan portfolio management, analysis of past credit problems, such as those associated with oil and gas lending, agricultural lending, and commercial real estate lending, has made it clear that portfolio managers should do more (Richard et al., 2023).

One of the managers who was affected in this way, had this to say; “Despite all efforts by Equity Bank to improve its asset quality, the quality of the corporate loan portfolio has consistently remained as low as 12% for the last three years. According to the Annual Report (2008), loan portfolio has grown from 144 billion in 2005 to 193 in 2007 (which is only 30%). It is thus upon such reports on setbacks suffered in the corporate loan portfolio that the study seeks to focus on improving corporate loan portfolio quality in Equity Bank (Richard, B, Janice, et al., 2022).”

Table 16: correlation between Credit terms, Credit standards and Collection procedures on loan portfolio performance

		CreditTerms	Credit Standards	Collection Procedures	Loan Portfolio Performance
Credit Terms	Pearson Correlation	1	.845**	.169**	.259**
	Sig. (2-tailed)		.000	.019	.000
	N	192	192	192	192
Credit Standards	Pearson Correlation	.845**	1	.111	.567**
	Sig. (2-tailed)	.000		.000	.000
	N	192	192	192	192
Collection Procedures	Pearson Correlation	.169**	.111	1	.169*
	Sig. (2-tailed)	.019	.000		.019
	N	192	192	192	192
Loan Portfolio Performance	Pearson Correlation	.259**	.567**	.169*	1
	Sig. (2-tailed)	.000	.000	.019	
	N	192	192	192	192
**. Correlation is significant at the 0.01 level (2-tailed).					
*. Correlation is significant at the 0.05 level (2-tailed).					

Source; Primary Data

The relationship between Credit terms and loan portfolio performance

From table 16 above results indicate that the Pearson product moment correlation index obtained is positive at $r = .259$. This result indicates that there is a positive and significant relationship between Credit terms and loan portfolio performance of commercial banks. This implies that that borrower values, attitudes, experience and beliefs had a positive effect on the improvement of loan repayment rate, reduction on the arrears rate and portfolio at risk of the bank. The results imply that if credit terms were in favour of the bank's credit terms, this would positively affect Loan portfolio performance (Nelson et al., 2023).

The relationship between credit standards and finance Performance

Credit standards had a positive correlation with the Loan Portfolio Performance in commercial banks ($r = 0.845^{**}$ $P < 0.01$). This meant that the two variables are positively related, implying that tight credit standards make a firm lose a big number of customers and when credit are losing the firm gets an increased number of clients but at a risk of loss through bad debts. A loose credit policy may not necessarily mean an increase in loan portfolio performance because the increased number of customers may lead to increased costs in terms of loan administration and bad debts recovery.

The relationship between Collection Procedures and loan portfolio performance

The results in the Table 16 above reveal that Collection Procedures had a positive correlation with the Loan Portfolio Performance in commercial banks ($r = 0.169^{**}$ $P < 0.01$). This means that the two variables are positively related. This implies that collection policy establishes a set of procedures used to collect accounts receivables which was getting overdue. Methods used could include letters, telephone calls, visits by the firm's officials for face-to-face reminders to pay and legal enforcements. The rationale is that not all clients meet their obligations, some just take it for granted, others simply forget while others just don't have a culture of paying until persuaded to do so.

A multiple regression analysis was conducted to address the purpose of the study which was to establish the relationship between credit management policies and loan portfolio performance in commercial banks in Uganda focusing on Equity Bank Adjumani Branch as the case study and the results below were obtained:

Table 17: Results of the Multiple Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.514	.310		1.658	.099
	Credit terms					
	Credit Standards	.581	.068	.443	8.514	.000
	Collection Procedures	.250	.043	.303	5.815	.000
a. Dependent Variable: loan portfolio performance						
R		.630				
R Square		.397				

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Adjusted R Square	.392
F Statistic	87.430
Sig. F Statistic	.000

Source: Primary Data, 2022

Results from Table 17 above indicate that credit management policies in terms credit terms, credit standards and Collection Procedures explain 39.7% of the variance in the loan portfolio performance (Adjusted R Square = .392). Results further indicate that Credit Standards (Beta = .443, sig. < .01) are a better predictor of loan portfolio performance than the Collection Procedures (Beta = .303, sig. < .01). The regression model was significant at the 99% confidence level. Finally, Credit management policies variable also have a constant relation with loan portfolio performance in Equity bank, it is every 1 unit increase in Credit management policies with incur the raise of 0.630 units in loan portfolio performance. The highest beta indicates the independent variable is the most significant variable toward it dependent variable. From the table above, the independent variable of Credit standards has the highest positive beta of 0.392, this mean that the independent variable of Credit standards has contributed the most and has stronger effect toward loan portfolio performance in Equity bank if compared to another independent variable.

Conclusions

The study sought to investigate the relationship between credit terms, credit standards and loan portfolio performance. Therefore, it was concluded that Credit terms and Loan portfolio performance were correlated at a rate where ($r = .259^{**}$, $p < .01$). This was confirmation that borrower values, attitudes, experience and beliefs had a positive effect on the improvement of loan repayment rate, reduction on the arrears rate and portfolio at risk of the bank while the regressions results revealed that a unit change in Credit terms brings about .879 or 87.9 % change in Loan Portfolio Performance in commercial banks. Also on a full analysis, it was clear that some areas of loan recovery, recuperation of loans, loan portfolio management, and loan monitoring were lacking strict measures.

The results revealed that there was a significant positive correlation between credit terms , credit standards and loan portfolio performance which implied that the way borrowers behaved during credit accessibility or after acquiring credit from the bank, had a lot of effect on determining the relationship that is formed during the lending process which would in turn affect effectiveness and efficiency of credit repayment. Therefore, the study concluded that the bank lacked credit evaluation procedures in place that aim at ascertaining the behaviour of the borrower and along with the loan portfolio period, monitor closely the behaviour of the borrower while ensuring that the required lending relationship is not compromised in the process.

Recommendations

The loan screening process was noted to be long and tedious. A loan could take up to one week. Most customers were unhappy with the turnaround time for the facility; hence look for alternative sources of credit. The study recommends that Equity bank should review its loan scoring process with a view of shortening it.

The costs associated with obtaining a loan, that are often incurred prior to disbursement affects both projected cash flow and the borrowers' morale regarding settlement of the facility. The study recommends that Equity bank desist from charging full amount of commitment fee on loan amount every time a new facility is sanctioned to a previous borrower. Where a previous limit is increased upon renewal, only the difference should be charged.

On the other hand, Equity bank lacked credible sources of information on borrowers. It relied on information provided by customers about their previous borrowing. Such information was hard to validate because most customers did not disclose all their existing borrowings in other financial institutions considering that some financial institutions like Savings and credit co-operative societies are not enrolled on Credit Reference Bureau. The study recommends that Equity bank should pool together possibly under the auspices of the Uganda Bankers' Association (UBA) and establish a Credit Reference Bureau (CRB) to which reference can be made before a loan is disbursement.

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