

# **LOAN GRANTING AND ITS RECOVERY PROBLEMS OF COMMERCIAL BANKS IN NEPAL**

A Dissertation submitted to the Office of the Dean, Faculty of Management in Partial  
Fulfilment of the requirements for the Master's Degree

By

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## **Certificate of Authorship**

I hereby corroborate that I have researched and submitted the final draft of the dissertation entitled “**Loan Granting and its Recovery Problems of Commercial Banks in Nepal**”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work have been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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## Report of Research Committee

Ms. Parbati Tiwari has defended the research proposal entitled “**Loan Granting and its Recovery Problems of Commercial Banks in Nepal**” successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Asso. Prof. Dr. Kapil Khanal and submit the thesis for evaluation and viva voce examination.

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## **Approval Sheet**

We have examined the dissertation entitled “**Loan Granting and its Recovery Problems of Commercial Banks in Nepal**” presented by Parbati Tiwari for the degree of Master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the dissertation is acceptable for the award of the degree.

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## **Abbreviations**

ANOVA	Analysis of Variance
CEM	Credit Evaluation Management
CPM	Credit Product Management
CPM2	Collection Process Management
CRM	Credit Risk Management
CRR	Cash Reserve Ratio
DMBs	Deposit Money Banks
GDP	Gross Domestic Product
MFI	Microfinance Institutions
MSMEs	Micro, Small and Medium Enterprise
NBL	Nepal Bank Limited
NPA	Non-performing Assets
PM	Performance Management
SACOO	Saving and Credit Cooperative Organization
SLR	Statutory Liquidity Ratio
TPM	Team Productivity Management

## Abstracts

The main objective of this study is to discover the problem faced by commercial banks while collecting the disbursed loan. The descriptive and causal research design was employed in this study. This study used primary data from one hundred sixty-two borrowers and one hundred-five bank officers currently working at Nepal Bank Limited. The collected data has been analyzed by using some statistical tools such as frequency, mean, standard deviation, correlation analysis, ANOVA and regression analysis. The data is collected through a structured questionnaire method using the Likert Scale. Many determinants of loan default and loan recovery, in this study borrower characteristics, proximity of bank characteristics and loan characteristics are the determinants of loan default and credit product management, credit evaluation management, credit risk management, collection procedure management, performance management and team productivity are the independent variables. The collected information and the numerical data have been analyzed by using the SPSS 27.0 version to show the data and results clearly.

The regression analysis shows that The independent variables such as borrower's characteristics, proximity bank's characteristics and loan characteristics variance account for 0.069 i.e. 6.99% on the dependent variable (loan default). The remaining percentage is due to other factors. The borrower's characteristics and proximity bank's characteristics have a negative but not statistically significant impact on loan default. The loan default is positively but not significantly influenced by the loan characteristics. Credit product management and credit evaluation management have a negative but not statistically significant impact on loan recovery. The loan recovery is positively but not significantly influenced by credit risk management (CRM). The loan recovery is positively and significantly influenced by collection process management (CPM2). The loan recovery is positively but not significantly influenced by performance management (PM). The loan recovery is positively but not significantly influenced by team productivity management (TPM). In order to satisfy customers' demands for new or existing products, the loan amount or size should be increased to the proper amount for each individual customer based on their financial needs, creditworthiness, ability, and capacity to repay. Customers should have enough flexibility in the loan term, payback cycle, and period to avoid having an influence on the loan default.

**Keywords:** *Loan granting, loan default, loan recovery, borrower characteristics, credit risk management, performance management*

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the study

The loan issuing or disbursement procedure in commercial banks entails several crucial processes to evaluate the borrower's creditworthiness and ascertain the loan's feasibility. When a prospective borrower applies for a loan, the bank checks the applicant's documentation, looks into their credit history, and determines whether they can afford to repay the loan. For secured loans, the collateral examination is completed. The bank's underwriting staff then evaluates the credit report and authorizes the loan, indicating the loan amount, interest rate, and terms of repayment. The authorized funds are deposited into the borrower's account upon acceptance of the loan offer, and it is their responsibility to return the loan according to the terms and schedule that have been established. Commercial banks maintain responsible lending practices and risk management throughout the process by adhering to internal policies and regulatory norms.

Transferring money from depositors to borrowers in need of funding to grow their businesses is one of a bank's primary duties. By acting as a middleman between depositors and borrowers, they provide a range of goods and services that support economic expansion. Although they provide a wide range of services, banks specialize in loan servicing. Lending is one of the economic services that significantly boost bank earnings. Bank loans provide their clients with financial solutions, but in exchange, the clients must pay back the principal and interest. By charging greater interest rates than it costs to pay depositors' interest, banks can make money on interest from loans (Lin, 2019).

The procedure through which banks give credit to their clients is known as loan granting. This procedure entails determining the borrower's creditworthiness and estimating the loan's risk. The borrower's financial situation, credit history, and the loan's intended use are taken into consideration when determining the loan amount, interest rate, and repayment schedule. Loans of all kinds, including mortgages, business loans, and personal loans, are given out by commercial banks. These loans support people and companies in meeting their financial obligations and achieving their objectives. To guarantee that the loans are repaid on schedule and the bank's risk is kept to a minimum, it is crucial to efficiently manage the loan disbursement process.

These days, the banking industry is crucial to preserving the nation's economy and sound financial system. A bank is a type of financial institution that offers various financial services, clears checks, pays interest, makes loans, serves as a middleman in financial transactions, and takes deposits. Banks will be lucrative if they have creditworthy consumers who can pay back their obligations. The business climate and economy are dynamic, constantly shifting, and becoming more competitive with other banks in the quest for clients (Lin, 2019).

The goal of financial institutions' operations is to provide working people and businesses with financial services. These services include savings accounts, insurance, leasing, and other financial services. Nonetheless, the two main services provided to bank customers in Nepal are loans and required savings.

These financial institutions' long-term goal is to offer economically engaged people access to sustainable financial services, regardless of their ability to do so through traditional financial institutions. Banks are being used as a tool for economic growth, helping to stimulate activities that generate revenue, stabilize sources of income for entrepreneurs, and support the expansion of firms. In contrast to the historically risk-averse banks, market-based financial institutions have developed to offer SMEs microloans and other financial services on a sustainable basis with more flexible conditions. Increasing access to capital and providing business development support together can be a powerful strategy for fostering entrepreneurial behaviour and enhancing corporate integrity. However, these banks have several challenges, such as inadequate funding from donors, inadequate borrower documentation, erroneous credit risk assessment, inadequate borrower communication, inadequate government support, misguided regulations, inadequate managerial skills, and loan defaults. Among these problems, loan default is the primary one that jeopardizes the financial operations of these organizations.

Administration of advances and loans in commercial banks. One of the main services the bank offers is lending. Lending is the job on the other hand if taking deposits is the job of first. One of the two primary roles of commercial banks is to lend money or advance loans. The commercial bank's primary source of income is lending. The banks' process of turning a profit doesn't begin without lending. The Reserve Bank of India's monetary policy controls bank lending practices. The deposits that banks receive from their clients are used to provide loans. On the day of maturity, deposits are refundable upon request or with short notice from the customer. As a result, the bank is unable to make longer-term loans from

deposits than it can make short-term. In essence, a commercial bank is a medium- or short-term lender. A large portion of the money that has been borrowed from depositors for a brief period cannot be extended over an extended length of time by a commercial bank. The bank management is aware of how to make the most use of their assets based on past experiences. Lending money to clients is how commercial banks make the majority of their profits (Pandey, 2010).

For many government agencies as well as private citizens, businesses, and homes, banks are the primary source of credit (loanable funds). More instalment loans are given by banks to their clients globally than by any other source of financial services, including individuals and families. In Myanmar, the banking industry is crucial to the country's economic growth, and a strong system can help the economy there (Lin, 2019).

The main goal of loan management is to generate revenue by meeting the community's credit demands. Approximately 65 to 70 percent of a commercial bank's revenue comes from lending activities. The loan programs a bank offers have a major impact on its success. To satisfy the requirements of the SLR (statutory liquidity ratio) and CRR (cash reserve ratio), a significant portion of bank deposits are blocked in cash reserves and liquid assets. A bank uses the interest income from loans to cover its other infrastructure costs and to pay the interest on deposits. To generate a respectable return on investment, the remaining funds must be lent out quite cautiously. Through their lending activities, commercial banks have enhanced job prospects and facilitated mass production, distribution, and consumption. By offering consumer loans, banks also raise the level of consumption. To maintain a steady demand for consumer products like homes, furnishings, appliances, fixtures, etc., banks offer consumer loans. Increased output and employment can lead to better incomes and an improvement in people's standard of living through the utilization of bank loans and advances. Commercial banks' net profits and gross earnings are significantly impacted by banking lending. It is the riskiest and most lucrative task that commercial banks undertake (Sethi and Bhatia, 2017).

## **1.2 Problem statement**

The primary causes of these banks' difficulties with good outcomes and seamless operations include fierce rivalry, unstable political environments, and a lack of oversight. Loan disbursement and recovery practices are therefore presenting these institutions with serious difficulties. In addition, loans are being misused by borrowers for reasons other

than those for which they were intended, and the loan application process is convoluted and lengthy, with terms and circumstances that are foreign to them.

Although the procedure of granting a loan may appear simple, a few typical obstacles may come up. Among the most prevalent issues is *loan delinquencies*: When a borrower fails to make one or more loan payments, it can lead to loan default and become delinquent. One of the largest problem's lenders encounter is loan default, which can harm finances and reputation. *Problems with loan underwriting*: Underwriting is the process of determining how risky it is to lend money to a borrower. Problems with loan underwriting can occur when a lender makes an incorrect assessment of a borrower's credit and financial standing. This may lead to a loan default and large losses for the lender financially. *Problems with loan default*: When a borrower is unable to return a loan, the lender may suffer financial losses in addition to harm to the borrower's credit history and reputation ([collegenep.com](http://collegenep.com)).

Numerous initiatives have been implemented to lessen the issue since loan default impairs commercial banks' ability to conduct their financial operations. Credit collection rules, which are used to manage commercial banks' loan portfolios and accounts receivable, define these efforts. These strategies lower the loan default rate by putting in place several institutional procedures. These consist of lending practices, screening procedures, collateral pledges, third-party credit guarantees, credit ratings, and the employment of collection agencies.

Accordingly, the chosen institutions employ a variety of techniques to lower the risks associated with unsecured lending. These consist of group lending, requiring a savings account equal to the loan amount, rewarding prompt payback with future access to larger loan amounts, and penalizing late payments with fees and loan denials for larger amounts (Mulema, 2011). Furthermore, before the loan is approved, the repayment records of both current borrowers and the third-party guarantors of new loan applicants must be submitted. Nonetheless, human judgment and past decision-making experience are the foundation of conventional techniques for determining whether to offer a loan to a person. These techniques are highly subjective rather than objective. Therefore, based on the borrower's existing company characteristics, borrower characteristics, and the bank's credit rules that are favourable to borrowers, the lender must evaluate the borrower's ability to repay to determine the possibility of a default. When calculating the likelihood of default, a statistical technique provides a clear, objective method.

Information in general indicates that social and economic aspects are related to default risk (Bichanga, 2013). On the other hand, nothing is known about how the features of the bank and the state of business today impact the probability of a borrower defaulting. In light of this, the purpose of this study is to identify the contributing variables to loan default in the particular Nepali commercial bank.

Problems with loan recovery have been the main cause of bank collapses in recent years. Banks rely heavily on loans to fund their operations and to meet their lending goals, they prioritize profitability, growth, safety, appropriateness, and liquidity. But the problem is that it's much easier to grant loans than it is to reclaim them. The process of recovering loans requires skill, knowledge, and experience, which can make it difficult at times. Banks may suffer greatly as a result of loan recovery failure, including illiquidity, insolvency, and hardship. For this reason, developing effective plans for debt recovery becomes essential, since this is the most critical problem that needs to be solved ([excellentprojectz.com](http://excellentprojectz.com)).

Recent years have seen significant bank failures as a result of challenges with loan collection. One of the main sources of bank income is loans. Nonetheless, banks have certain goals in mind when it comes to lending, including growth, profitability, safety, suitability, and liquidity. The inability to retrieve loans may negatively impact the stability of the bank. Loan recovery is far more difficult than loan issuance because loan recovery requires expertise, which includes proficiency in the recovery procedure. Oftentimes, this endeavour seems like an uphill battle. Remaining unpaid loans can have disastrous effects on the bank, including, depending on the situation, illiquidity, bankruptcy, and even financial hardship. To achieve effective loan recovery and safeguarding, it is essential to address these problems and execute appropriate measures.

The problem of the study, loan granting and its recovery problems of commercial banks in Nepal, is directed to finding the solution of the following questions:

1. What are the challenges faced by the customer while taking the loan?
2. What are the problems that face by the bank while managing loans?
3. What are the determinants of loan defaults of commercial banks in Nepal?

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

Its general objective is to determine the similarities and differences in their approaches to loan management.

The major objectives of the study are:

1. To identify the challenges faced by the customer while taking loans in commercial banks in Nepal.
2. To find out the problems faced by the bank while managing loans.
3. To examine the determinants of loan defaults of commercial banks in Nepal.

### **1.4 Significance of the study**

Making managerial decisions is heavily influenced by the analysis of loan-giving practices and recovery issues faced by Nepal's commercial banks. Every company that operates, promotes or expands must conduct a detailed analysis of its financial performance. Every financial choice made by commercial banks is made to increase shareholder wealth. The present investigation can considerably improve the financial outcomes of the relevant entities. Its conclusions will be helpful to academics, learners, instructors, and professionals in the accounting and finance fields, as well as to stock exchanges, financial institutions, shareholders, debtors, depositors, and customers. This study's objective findings will support these stakeholders in choosing which banks to interact with, promoting openness and well-informed decision-making in the financial industry. The decision-makers and policy planners of the sampled banks will find this research beneficial. Future research as well as reference needs can benefit from this study. An overview of the history of loan granting and recovery issues by Nepalese commercial banks is provided by this paper. When purchasing the stocks of these banks, it aids investors in making decisions. Understanding where they are falling short and where they are excelling is helpful to commercial bank management. It aids in determining the main problems associated with loan default. Knowing what is useful to bank officials, investors, borrowers, and other researchers

### **1.5 Limitation of study**

The following limitations are pointed out in this study of the loan granting and its recovery problems of commercial banks in Nepal:

- a) The study analyses only the loan granting and recovery system of the selected commercial banks.
- b) This study is based on the primary data collected using a questionnaire method.
- c) The respondents are borrowers and bank officers.
- d) This study considers the borrower's characteristics and the bank officer's characteristics which affect the recovery rate of lending.
- e) The findings and conclusion of this study are only based on the survey analysis and the previous research analysis.

## CHAPTER II

### LITERATURE OF REVIEW

A review of the literature highlights the main points of research papers or studies and demonstrates how they relate to other studies on the same topic. This section will examine many papers and research on the subject of loan provision, including issues with recovery and the reasons for commercial banks' defaults in Nepal.

#### 2.1 Conceptual Review

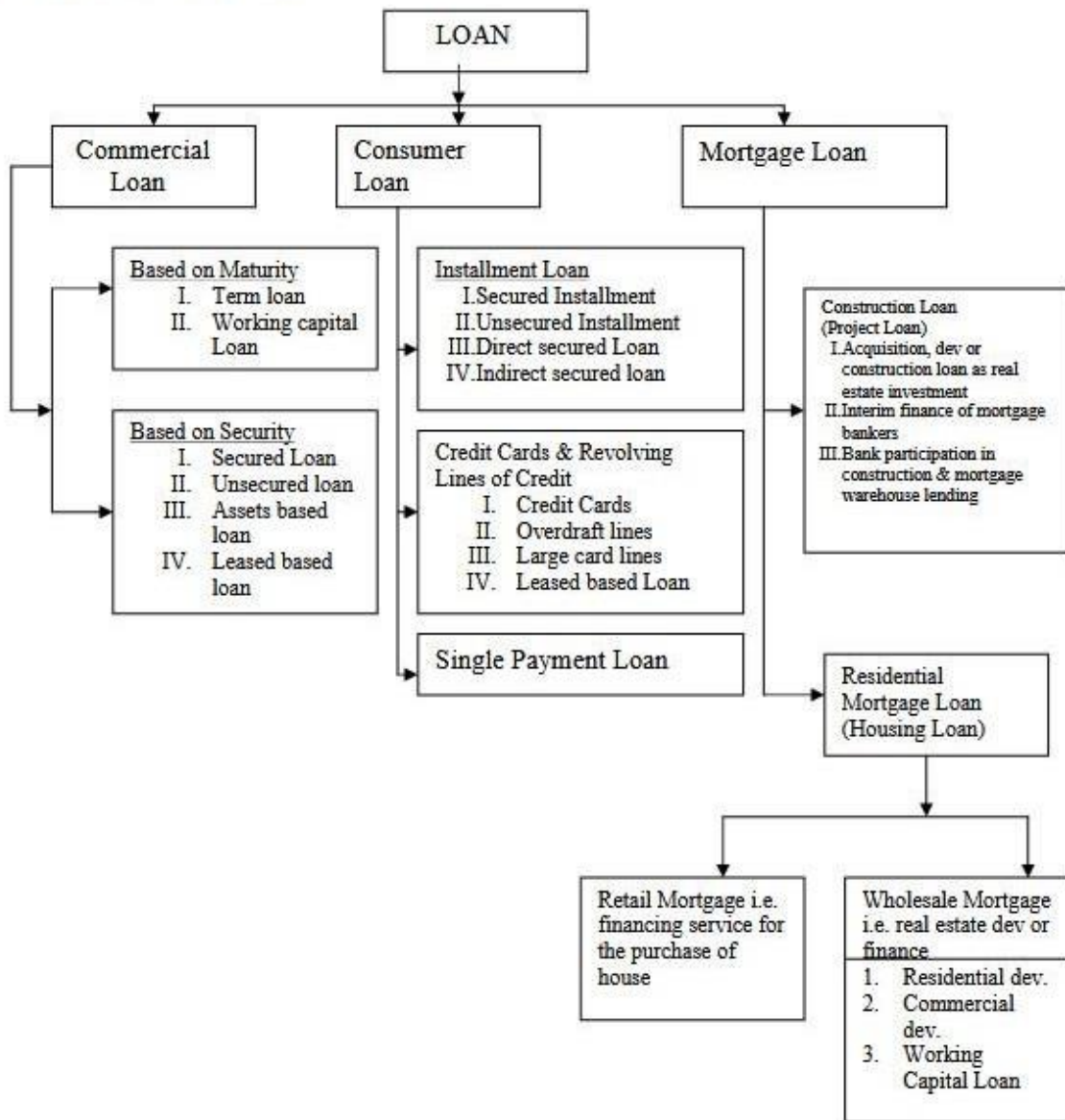
##### 2.1.1 Loan granting

Loan disbursement is the procedure by which banks or other financial intermediaries give borrowers credit or funds within a predetermined window of time. It is an essential component of how financial institutions operate and generates a sizable amount of revenue from the interest on loans that are disbursed. To reduce risks and guarantee the security of their assets, financial institutions therefore give priority to disbursing loans in safe industries.

The procedure through which financial institutions, like banks and credit unions, evaluate borrowers' creditworthiness and offer them money on predefined terms and conditions is known as loan granting. Lenders consider a number of variables before approving a loan, such as the borrower's work position, income level, debt-to-income ratio, credit history, and collateral (if applicable). This evaluation aids lenders in figuring out the risk involved in making the loan, as well as in choosing the right interest rate and repayment plan. Giving out loans is a vital part of the financial system because it gives people and companies access to capital, allowing them to finance big investments and purchases or pay for unforeseen costs. To avoid high debt loads and probable defaults, which could have a negative impact on borrowers and lenders alike, careful loan giving is essential. (<https://www.federalreserve.gov> )

The bank offers its clients a variety of loans by holding collateral. Nepal Bank Limited offers two primary loan categories. While the Agribusiness Development Bank offers Consumer, Corporate, Subsidized, and MEMS loans, it also offers retail and agriculture loans. The loan classification chart is provided below.

**Loan Classification Chart**



*(Source: Jonson et. al. Commercial Bank Management New York: The Dryden Press, 1940)*

**2.1.2 Loan Recovery**

The procedure through which lenders or other financial organizations obtain the remaining loan balance from borrowers who have fallen behind on their payments is known as loan recovery. Loan default occurs when debtors don't make the agreed-upon repayments on time. Recovering the outstanding loan sum plus any penalties and interest while abiding by the law and ethical standards is the main goal of loan recovery.

A variety of tactics and methods are used in loan recovery, including negotiating with

debtors, providing repayment schedules, and, if necessary, using assets to recover the loan balance. In addition, lenders may pursue legal action, such as starting the foreclosure process in the case of mortgage loans, or they may turn to debt collection firms for assistance. Financial organizations need to use efficient loan recovery procedures in order to reduce losses and keep a healthy loan portfolio. Furthermore, a successful loan recovery adds to the general stability of the financial system by guaranteeing the availability of funds for additional lending.

One of the more significant and laborious tasks a bank must complete as part of its lending business is loan recovery. The most important job that banks perform is lending; specifically, the loans and advances that a commercial bank has mobilized reveal its position and status. However, a deep reflection shows that there are other factors to consider in addition to simply providing the highest amount of loans and advances. Loan recovery is the more important component. The ability of commercial banks to recover advances and loans determines their level of success. Every loan that the commercial bank has mobilized should have its repayment monitored on a regular basis. It would be ideal if all of the debtors were to make all of their single scheduled repayments. It should be the routine duty of the relevant bank departments to notify each borrower prior to the approaching due date. The function of sending reminder letters at various intervals as required by the bank's regulation remains unchanged. Since this is such an important section, it should be carefully read and examined. The bank must to employ every legal tactic at its disposal to obtain the repayments. If the bank was unable to collect the debt even with all available methods, the recovery bank's last resort would be to liquidate the collateral, which would be an extremely laborious task. Thus, banks ought to always err on the side of caution when (Paudel, 2010).

### **2.1.3 Problems of Loan Recovery**

For lenders and other financial organizations, loan recovery can be a difficult and complicated procedure. Typical issues encountered during loan recovery include: Borrowers may totally default on the loan or miss payments, resulting in a loss for the lender. Partial or erratic payments from debtors could lengthen the repayment period and raise expenses for the lender and other financial institutions. Financial organizations, such as banks, can encounter communication challenges while trying to work out repayment schedules or recover unpaid loans from borrowers. Under certain circumstances, such as unexpected medical expenses, job loss, or economic downturns, borrowers may find themselves in financial difficulties or unable to make their loan payments. Furthermore,

banks prioritize loan disbursements based only on quantitative data, such as income statements, balance sheets, cash flow studies, and stock analysis. In the event that the loan is secured, the banks may suffer a loss if the value of the collateral is insufficient to pay off the outstanding balance.

Following intricate legal and regulatory procedures is necessary for loan recovery, and navigating the legal system may be costly and time-consuming. It is possible for borrowers to declare bankruptcy or become insolvent, which could make the recovery procedure more difficult and could lead to less or no recovery of the remaining loans. During the recovery process, incomplete or erroneous loan documentation may make the bank's case weaker. The bank's reputation may suffer from aggressive or unethical debt collection tactics, which could result in bad press and perhaps legal repercussions. Higher recovery costs will result from the bank hiring a debt collection firm or starting legal action if they are unable to retrieve their loan. Certain borrowers might not be entirely aware of the terms of the loan, which could lead to inadvertent defaults.

Loans that are not repaid are categorized as problem credits. Problem loans and losses are essentially a reflection of the enormous risk associated with a borrower's capacity and willingness to fulfill all commitments (Chisom, 2012). Lending is a flawed process by definition. Credit analyses may be inaccurate or based on inaccurate information. Strong personal ties between loan officers and the bank may cause them to overlook the true terms of borrowing, and once a loan is approved, a borrower's ability to repay the debt may easily change. A bank will hardly ever provide loans if management's primary focus is on reducing losses. Profit will also suffer, and customers' genuine credit demands won't be satisfied (Uddin & Bristy, 2014). Lenders cannot completely reduce risk, thus further loan losses are anticipated. The objective is to efficiently handle losses so that the bank can fulfill its risk and return goals (John Orjih, 2002).

When a creditor's obligation is not fully or partially recoverable because of an underlying weakness, loan defaults happen. Bad debt, also known as loan defaults, refers to parts of bank customers' accounts receivable or credit that are not repaid within the allotted time for various reasons (Banik et al., 2020).

#### **2.1.4 Causes of Loan Default**

Numerous factors, some of which are under our control and others of which are not, contribute to loan defaults. The variables that are within the bank's control encompass its

credit policy, credit analysis quality, loan structure, and paperwork (Ali, 2012). Uncontrollable factors usually result from unfavorable regulatory changes, unfavorable economic situations, and environmental changes that have an impact on the borrower's business operations. Even though it could be difficult to stop uncontrollable factors, putting in place a strong credit-granting process can significantly reduce the risk of losses from other sources (Chisom, 2012).

Here are some causes that affect loan defaults:

Bank related factors

Customer-related factors

Uncontrollable factors

**a) Bank-related factors**

Bank-related loan defaults can happen for a number of reasons. These are a few typical reasons:

**Inadequate Credit Assessment:** Without performing comprehensive credit assessments, banks may authorize loans, providing money to applicants who have a higher risk of default.

**Weak Risk Management:** Poor risk management procedures can result in loans being given to creditworthy borrowers despite careful monitoring of the collateral's value and the borrowers' financial situation.

**Excessive dependence on financial statements:** Proper loan administration is facilitated by the information included in the customer's financial statement. The loan administrator shouldn't deal with the statements at face value or perform a thorough financial analysis of the information needed to make wise decisions.

**Connected lending:** Certain bank lending officials give money to their family members or affiliated companies without taking the fundamentals of lending into account. This method frequently results in bad and unrecoverable loan debt.

**Lending on overvalued securities:** The securities placed with the bank are frequently not priced appropriately to reflect current market values. Even if these securities are realized, their overvaluation will not cover the loan balance.

**Lack of Borrower Monitoring:** Banks might not have the right systems in place to routinely check on the financial stability of their borrowers, which might cause prospective defaults to go unnoticed for longer.

## **b) Customer-related factor**

Loan defaults can also occur due to various customer-related factors. Here are some common causes:

**Poor Credit History:** A lower credit score indicates a higher credit risk and a higher probability of defaulting on new loans for customers with a history of late payments, defaults, or high debt levels.

**Excessive Debt Burden:** Clients who have large debt obligations or several loans may find it challenging to efficiently manage their debt repayment schedules.

**Lack of Financial Literacy:** Unintentional defaults may result from borrowers who do not fully comprehend the terms and circumstances of the loan.

**Misuse of Funds:** The use of loan proceeds by borrowers for uses other than those for which they were intended can lead to loan default and financial instability.

**Delayed Communication:** Failing to notify the bank of anticipated problems or financial troubles can cause proactive measures to be delayed, increasing the likelihood of default.

**Psychological Factors:** Consumers who are under stress, have mental health problems, or have experienced emotional trauma may find it difficult to manage their financial affairs, which could result in loan defaults.

**Dependency on a Single Source of Income:** Customers may be more financially vulnerable if they depend significantly on a single source of income, such as a particular employment or business.

**Adverse Life Events:** Significant life events that can upset a borrower's financial stability and result in defaults include divorce, the loss of a family member, or natural disasters.

**Lack of Collateral:** For secured loans, borrowers who don't offer sufficient collateral run a greater risk of defaulting because the lender has no recourse in the event of non-payment.

## **c) Uncontrollable factors**

Uncontrollable external circumstances that borrowers may experience can also have an impact on loan defaults. The borrower and the financial institutions have no control over these issues. Among these unpredictable reasons for loan default are:

**Natural Disasters:** Natural disasters such as hurricanes, wildfires, floods, earthquakes, and other calamities can inflict extensive damage and interfere with economic operations.

Disaster-affected borrowers can sustain large financial losses, which would make it difficult for them to repay their loans.

**Economic Recession:** Recessions and economic downturns can cause widespread job losses, lower income levels, and general financial instability for both people and companies. As a result, amid hard economic circumstances, borrowers could find it difficult to repay their loans.

**Global Economic Trends:** Global demand shifts or variations in commodity pricing are examples of international economic trends that can have an impact on certain enterprises and industries, resulting in lower sales and loan defaults.

**Government Policy Changes:** The viability of enterprises and the capacity of borrowers to repay loans may be impacted by modifications to import/export laws, tax laws, or government policies.

**Political Instability:** Regions that are going through civil unrest, political upheaval, or changes in leadership may have economic disturbances that result in loan defaults.

**Currency Fluctuations:** Foreign currency borrowers run the risk of experiencing fluctuations in exchange rates. Their capacity to repay loans denominated in foreign currencies may be impacted by abrupt changes in currency prices.

**Global Health Crises:** Health emergencies and pandemics, like as the COVID-19 pandemic, can have a significant negative impact on the economy, disrupt supply networks, and cause significant financial difficulty for debtors.

**Changes in Industry Dynamics:** Certain industries may be impacted by technological breakthroughs, market upheavals, or changes in customer tastes, which may have an effect on borrowers' income and ability to repay loans.

**Legal or Regulatory Changes:** Laws, rules, and court decisions might change, which can affect how firms operate and manage their cash flow and make loan repayment more difficult.

### **2.1.5 Problems of Loan Default**

When a loan is not repayable, it is categorized as a problem credit. The problematic risk associated with a borrower's ability and willingness to repay all commitments is primarily reflected in problem loans and losses. Lending is by its very nature an imperfect process. A credit analysis could be lacking or based on inaccurate information. With close personal

links to the bank, loan officers can overlook the real terms of borrowing, and a borrower's capacity to repay a loan might easily shift once it is approved. A bank will essentially stop making loans, its profit margin will drop, and its clients' genuine credit needs won't be satisfied if management is only focused on minimizing losses. Risks cannot be eliminated by lenders, hence more loan losses are to be expected. The objective is to manage losses well so that the bank can meet its risks and returns targets (John, 2002).

Debts owed to creditors that are deemed unrecoverable in full or in part owing to an underlying weakness result in loan defaults. From the perspective of a banker, loan defaults, also known as bad debt, are a part of accounts receivable or credit extended to the bank's clients that, for a variety of reasons, cannot be recouped within the allotted time.

### **2.1.6 Determinants of Loan Default**

#### **Borrowers' Characteristics**

Individual traits and borrowers are unique elements that could affect how well a loan is repaid. These consist of things like age, gender, income bracket, credit usage history, business category, and investment amount (Nawai and Sharrif, 2017). Further research suggests that a borrower's attitude toward the loan, other loans obtained from other institutions, the quantity of the loan received, company experience, and family history are other factors that could affect the borrower's capacity to repay the loan. (Nawai and Sharrif, 2017).

#### **Loan Characteristics**

The elements unique to the credit facility being given that could affect loan repayment are known as loan characteristics. These consist of the loan's amount, repayment schedule, collateral value, number of instalments for loan repayment, application fees, interest rate, and cost of borrowing. According to Karlan and Valdivia's (2014) research, there has been a noticeable rise in loan defaults. Moreover, a number of factors, such as financing prices, the type of advance, the repayment time, and economic conditions, have contributed to credit defaults.

#### **Business Characteristics**

The elements unique to the company or enterprise into which the loan facility will be invested and which may have an impact on loan repayment are known as business/firm characteristics. These consist of things like the ownership structure, the type of business,

and the division between the business and the lending bank. The amount of the advance that was approved or received—that is, its size—may have a favorable impact on the reimbursement process (Phillips and Vander Hoff, 2014).

### **Institutional/lender Characteristics**

The elements that exist within the financial institution providing the loan facility and have the potential to impact loan repayment are known as institutional/lender characteristics. These include the amount of time that elapses between submitting an advance application and paying for it, the cost of financing, the ability to handle business data and prepare for credit use, reasonable enrollment terms, and penalties for tardiness to meetings. Despite this, Korankye (2014) also determined that inadequate advance sizes, inadequate evaluation, lack of checking, and dishonorable customer decisions are additional causes of advance default. He advised budgetary organizations to adhere to successful and transparent credit arrangements and procedures (Rhyne, 2001).

### **2.2 Empirical Review**

Adegbola et al. (2023) published a journal *Credit Management Practices and Loan Default in Deposit Money Banks (DMBs) in Osun State, Nigeria*. The main objective of the study was to examine the effect of credit management practices on loan default in deposit money banks in Osun State. The researcher used descriptive statistics and multiple linear regression analysis to analyze the data. Credit monitoring and credit appraisal both showed negative but non-significant effects on loan default, while credit collection strategy showed positive and substantial effects on loans. The study concluded that credit management had no significant effect on loan default.

Kowa and Turianwe (2023) investigated a critical analysis of loan policies and loan recovery at a Saving and Credit Cooperative Organization (SACOO) in Uganda: A case of Y-Save SACOO. The main purpose of the study was to investigate the effect of loan policies on loan recovery in a Christian-based Saving and Credit Cooperatives Organization (SACOO) using Y-Save Multipurpose Society Limited in Kampala Uganda as a case study. The researcher used regression analysis to analyze the data. The outcome showed that, despite a mere 3.3% possibility, lending policies are predictive of loan recovery efficacy. Among the three components of lending policies, loan appraisal is the one that most closely forecasts loan recovery.

Maina and Njeru (2023) analyzed the influence of credit risk management practices on the

loan recovery performance of the registered digital credit providers in Kenya. The researcher used multiple linear regression to assess how methods for managing credit risk affect the capacity of digital credit providers in Kenya to recoup loans. The results show that all the factors have a positive link, with credit procedures having the biggest impact on loan recovery success. The ANOVA results show that every independent variable influence loan recovery performance through prediction. A unit increase in the independent variable—credit procedures, credit assessment, credit monitoring, or credit recovery systems—influences loan recovery performance, holding all other variables constant at zero.

Odumusor et al. (2023) analyzed the Effect of debt recovery techniques on the performance of the banking sector (a study of selected deposit money banks in Ogoja, Cross River State, Nigeria). The ordinary least square regression analysis was employed to examine the effect of debt recovery techniques on the performance of the banking sector. The results of the study showed that some deposit money institutions' performance is significantly impacted by debt rescheduling. The study also showed that the performance of particular deposit money institutions is significantly impacted by the repossession of security. The study also discovered that the performance of particular deposit money banks is significantly impacted by the auction.

Usendok et al. (2023) analyzed the Effect of credit management systems on loan recovery efforts of microfinance banks in Akwa Ibom State. The regression analysis was the statistical tool employed to ascertain the effect of credit management techniques on loan recovery efforts by microfinance banks. It was concluded that Credit appraisal, credit risk control and collection policy were found to be very important in influencing loan recovery.

Yuliansyah et. al. (2023) researched an analysis of the partnership program's effectiveness in distributing loans and collection loans as BUMN PKBL responsibilities from 2017 to 2019. The main purpose of the study was to evaluate the efficacy of partnership program credit distribution and credit collecting as a means of BUMN PKBL accountability in 2017 – 2019. The researcher used ratio analysis to analyze the data. The results showed that all companies were very good at fulfilling their responsibilities regarding partnership projects (PK). Although BUMN usually disburses funds quite successfully, certain companies continue to disperse their partnership program loans in an inefficient manner. Similar conditions apply to loan payback collection rates, with certain BUMNs having relatively low rates and others having rather high rates.

Revati & Kumar (2022) published a journal study on problems related to loan granting and recovery at SBI Bank. The main objective of this study was to assess the loan granting and its recovery problems on SBI Banks. The researcher used Chi-square, descriptive statistics and ANOVA analysis to analyze the data. The study's conclusion was that because loan repayment schedules are designed with the future in mind, there is always some degree of risk associated with creating credit through loan issuing. The majority of loans made by SBI Banks are not repaid quickly and end up as bad debts.

Umar (2022) examined the determinants of loan default among microfinance banks' borrowers in Kano State, Nigeria. The researcher employed logit and probit to examine how personal and business characteristics of micro, small and medium enterprise (MSMEs) borrowers of microfinance banks influence loan default. The results showed that the size of the family, gender, and age of the business are important factors that influence loan default. The size and location of the firm, the borrowers' marital status, and their age were found to be unimportant in predicting loan default among microfinance MSME borrowers.

Muttappa and Baligatti (2021) published an article on the problems related to loan granting and its recovery in commercial banks. The main purpose of this study was to find out the several problems facing loan recovery, the effects of loan default on commercial banks and the measures that will be used in reducing the incidence of loan default. The researcher used percentages and Chi-square to analyze the data. The researchers found that there has been default on loan repayment and also found the major effect these have on banks is that the loan is reduced to a minimum.

Nwaubani (2021) examined the assessment of the implication of loan default and recovery drive on the profitability of Deposit Money Banks in Abuja. The main objective of the study was to assess the implication of loan default and recovery drive and its impact on the profitability of Deposit Money Banks in Abuja. The researcher used Pearson's Correlation to analyze the data. The study's findings demonstrated a substantial correlation between overdue loans and profitability, recovery issues and profitability, a lacklustre project viability analysis and profitability, and loan default and Deposit Money Banks' risk management practices.

Courx et al. (2020) analyzed the Important factors determining Fintech loan default: evidence from a Lending club consumer platform. The logistic regression analysis was

employed to examine the default determinants of Fintech loans. The findings suggested that it would be crucial for regulators to be more open with guidance and regulatory clarity regarding the kind of alternative data that can be used lawfully without breaking fair lending regulations. Lenders must be more aware of the judgments they make and recognize that they could be influenced by intricate algorithms operating inside of "black boxes."

Nor et al. (2020) researched recovery issued on Murabahah Financing in Malaysia. The main objective of the study was to investigate the recovery issue of Murabahah financing in Malaysia. The researcher used descriptive and content analysis to analyze the data. The result of the study showed that the issue of Ta'widh Murabahah restructuring and guarantees are of common weight while the issue of ibra is also important lately. In addition to the problems with recovery, it is observed that there is ongoing noncompliance with the regulations set forth by the regulator and that a significant reliance on common laws is both inevitable and ongoing.

Lyimo (2019) investigated the causes of loan delinquency by small and medium enterprises in Dar Es Salaam Tanzania. The study's primary goal was to identify the factors that contribute to loan delinquency in Tanzania's Dar Es Salaam small and medium-sized businesses. Regression analysis and correlation analysis were employed by the researcher to examine the data. The results show that borrowing money has become more common for reasons such as diversification, market expansion, and launching new ventures, all of which increase loan delinquencies. The results of the study also showed that among the SMEs under investigation, management competency had a negative impact on loan delinquency. Additionally, it was shown that among SMEs in Dar es Salaam, innovativeness had a negative but insignificant link with loan default. This suggests that experimenting, introducing new goods or services, and incorporating staff ideas into the company have a negligible impact on the decline in delinquent loans.

Mwembezi and Lusanjala (2019) examined the determinants of loan defaults in financial institutions: The case of two selected Sumbawanga Municipality. The main purpose of the study was to evaluate the extent of loan default rates for the selected financial institutions (FIs). The researcher used the Binary Logistic Regression Model to analyze the data. The results demonstrated that both institutions had loan defaults. Still, between 2013 and 2018, there was a decline in the loan default rate. Furthermore, the results of the logistic regression model indicated that the borrowers' age and the interest rate that FIs charged were significant at ( $P < 0.05$ ), whereas the business type, business management education,

and loan uses were significant at ( $P < 0.01$ ). The majority of respondents stated that two of the biggest consequences loan defaulters face are losing their assets and being denied future loans. The effects stated by FIs include loss of interest income, decline of operating profit through provision for bad debts, and limitation of lending capacity.

Tin (2019) studied the evaluation of the effectiveness of loan recovery strategies in Myanmar microfinance institutions: A case study of proximity finance. Analyzing the factors that contribute to loan delinquency and default in Myanmar's microfinance institutions as well as the efficacy of Proximity Finance's debt recovery techniques was the primary goal of the study. The researcher selected one hundred Proximity Finance workers and sixty clients using a descriptive survey design and random sample approaches. According to this report, inadequate loan size, loan term, payment schedule, overlapping loans, and inadequate client communication are the primary causes of loan default in Myanmar. The employee survey's findings indicated that the majority of Proximity Finance's tactics and procedures adhere to international standards and best practices. He has already addressed every common cause of loan default in his practices and tactics, and some of them are still included in the migration plan. The joint obligation methodology was employed in the credit assessment evaluation processes and practices to ensure loan payback, and it was shown to be highly effective. Loan supervision and pre- and post-regular monitoring are carried out effectively. Procedures, processes, and policies are recorded, updated, and routinely examined.

Dhamala (2018) conducted a Study on the Lending Practices of Finance Companies in Nepal. The study's purpose is to analyze the performance of finance companies regarding lending quality and quantity and its contribution to profitability. This study is based on the secondary data of finance companies on loan flow and the income generated by loans i.e. interest earnings and how this interest-earning affects the overall profit of the company. The study's key conclusion is that one of the primary revenue streams for financial organizations is advances and loans. Since loan loss provision is a result of advances and loans, it does increase synchronously with advances and loans. According to this survey, finance businesses' loans and advances, as well as their provision for non-performing loans and loan loss, are on the rise. Therefore, additional measures to limit NPL should be taken.

Gatimu et al. (2018) investigated the effect of non-performing loan management practices on the loan recovery performance of Deposit-Taking savings and credit cooperatives in Kenya. The main purpose of the study was to determine the effect of non-performing loan

management practices on the loan recovery performance of deposit-taking savings and credit cooperatives in Kenya. Regression analysis and descriptive statistics were employed by the researcher to examine the data. Stakeholders will require the study's conclusions in order to formulate suitable management choices and policies regarding loan performance in SACCOs.

Mambova et al. (2017) analyzed the determinants of loan default in microfinance institutions in Tanzania: a case of two selected microfinance institutions in Dodoma Municipality. The logistic regression analysis was used to assess the determinants of loan defaults of selected microfinance. The findings showed that while business type, business management education, and loan uses were found to be relevant, the age of borrowers and the interest rate imposed by MFIs were shown to be significant. The bulk of respondents and key sources stated that MFIs used capacity building, frequent communication, rejecting borrowers for the next loan opportunity, and holding defaulters' property as strategies to lessen default concerns.

Sharma (2017) conducted a study on a Comparative Study of Credit Management of Nepalese Commercial Banks (With Reference to Nabil Bank Ltd., Nepal Credit and Commercial Bank Ltd. and Nepal Investment Bank Ltd.). The main objectives of the study are to evaluate the proposition of credit and the level of NPAs in total loans, total deposits and total assets in selected banks. This study shows that banks' non-performing assets (NPA) have grown over the study period, with poor oversight, a lack of attention to lending policies while issuing loans, and poor management being the main causes of this expansion. Similarly, it has been discovered that the legislative provision for recovery, when cited as a cause for an increase in non-performing assets (NPA) in Nepalese banks, is an average element that has the least influence on the supervision and monitoring system. Simultaneously, it has been seen that commercial banks prioritize lending their resources to the commerce sector. It is then discovered that the service industry is not given much attention.

Taiwo et al. (2017) analyzed Credit risk management: implications on bank performance and lending growth. The researcher used multiple linear regression analysis to investigate the quantitative effect of credit risk management on the performance of deposit money banks and bank lending growth. The outcome demonstrated how effective credit management techniques may raise savers' and investors' trust in banks, which in turn increases the amount of money available for loans and advances and raises bank

profitability. The growth of the total loans and advances made by Nigerian deposit money institutions is not significantly impacted by credit risk management.

Mishra (2016) published a journal recovery of Institutional Agriculture Loan. The main purpose of this study was to examine the significant difference in the recovery position of agricultural loans across the banks and between the types of agricultural loans. The researcher used ANOVA to analyze the data. The data above reveals that banks are unable to recover the loans that have been disbursed. However, cooperative banks have the biggest collection of short-term agricultural loans that are disbursed. Public sector banks and regional rural banks come next, in that order. When it comes to the banks' recovery of agricultural term loans, things are different. Public sector banks have gathered more agricultural term loans than regional rural banks, while cooperative banks have collected very little if any, agricultural term loan distribution.

Mwangi and Muturi (2016) analyzed the effect of credit risk management on the loan repayment performance of commercial banks in Kenya. Descriptive statistics and regression analysis were the statistical tools employed to determine the effect of organizational credit policies on the loan repayment performance of commercial banks. The findings revealed positive significant relationships between the variables all set at Organizational credit policies correlated, while risk identification processes correlated, debt collection processes and credit scoring correlated. The study's conclusions showed that loan repayment performance is impacted by credit risk management. According to the findings, commercial banks who are successful in putting their organizational credit policies into practice would see an improvement in their borrowers' loan payback.

Obeng and Krah (2016) analyzed Default risk and debt recovery strategies of microfinance institutions: a comparative study of MFIs in Ghana. The researcher used mean, and standard deviation to identify and compare the strategies used by SIL and PCSL to minimize the risk of default and to recover debt. The results showed that PCSL's ratio of non-performing loans was lower than the industry standard. The non-performing loan ratio for SIL was the same as the industry average. The study concluded that PCSL's debt recovery tactics outperform SIL's tactics in comparison.

Timlsina (2016) researched the determinants of Bank Lending in Nepal Commercial banks constitute a major chunk of total assets in the banking system in Nepal and extension of credit is one of the major functions of banking institutions. Bank lending practices that are

inefficient could not support economic expansion. However, their reckless and ineffective banking methods could cause more dangerous financial instability. The primary goal of the research is to determine whether the factors influencing commercial bank lending practices in Nepal are effective. This will be accomplished through empirical analysis utilizing the time series Ordinary Least Square regression approach. The model considers private sector credit (pvct) provided by Nepalese commercial banks as the dependent variable and various other variables including deposit volume, interest rate, stipulated cash reserve requirements ratio, liquidity ratio, inflation, exchange rate, and GDP as the independent variables for the period of 1975 to 2014. Regression research revealed that the two variables that have the biggest effects on banks' lending behavior are their GDP and liquidity ratio. The Granger Causality Test demonstrates a unidirectional causal link between GDP and private sector credit. According to the study, GDP is a good indicator of the health of the economy, so when commercial banks are deciding which loans to provide, they should consider the macroeconomic conditions of the entire nation, as well as elements that affect GDP generally and their liquidity ratio specifically.

Gautam (2016) analyzed the loan recovery of the commercial bank. The researcher has reported that, in comparison to previous years, the bank's loan disbursement and collection pattern has been improving. This study's findings indicate that the mishandling of nonperforming loans is the cause of the erratic loan recovery trend. The expert has suggested that in order for the bank to solve the issue, it should investigate the cause of the volatility. The researcher has proposed that the management of the bank implement a recovery-focused approach for non-performing loans. According to the researcher, even though the bank, Nepal Rastra Bank, has complied with the central bank's requirements regarding lending to the underprivileged sector, the percentage of loans extended is relatively low. For this reason, she has recommended raising the percentage of lending in the underprivileged sector in order to support the nation's economic growth. In final words, the researcher has recommended that the bank should not only concentrate on providing credit to the business sector.

Bala (2015) analyzed analysis of the Agriculture loan repayment performance of regional rural banks; A case study of District Sirsa, India. The study's primary goal was to examine how well agricultural loans recovered as well as the difficulties respondents had making their repayments. To evaluate the data, the researcher employed percentages and averages. According to the current study, 10% of borrowers have quickly increased their loan

amounts from 25% to 50%, and some have even surpassed 70%. A high percentage of crop failure was linked by 60% of respondents to decreased income, and 17.5 percent of borrowers were determined to be defaulters. Their primary challenge in fulfilling loan obligations was the reason for the increased frequency of loan defaults.

Khanal (2015) studied the efficiency and effectiveness of loan recovery of the bank. According to the research, in order to increase the bank's chances of receiving all of its money back, bankers should always have the objective of loan workouts front and center. The researcher has also highlighted that because the bank's borrowers are individual borrowers, the bank must review its records and take corrective action by carefully examining the reason why the loan was not able to be repaid on time. According to the researcher, inadequate supervision is to blame for the poor recovery; thus, the bank should adhere to stringent supervisory procedures and make an effort to establish field supervision to ensure that the loan amount is used appropriately. Banks are required to assess their interest rates and other charges because they have a significant impact on loan recovery. The researcher also expressed the opinion that the bank should create a unique loan recovery policy that takes into account the nation's geographic and infrastructural development. The researcher also suggested the formation of a research group to examine the problem from all angles and boost loan recovery.

Siddiqua and Zaman (2015) published a journal on the topic of loan recovery and performance of commercial banks; a study on Jamuna Bank Limited (JBL) and Janata Bank Limited (JB). This study's primary goal was to compare the recovery systems of two prominent banks in Bangladesh with regard to the crucial recovery issue. The average and percentage were utilized by the researcher to examine the data. According to the study (2010), the recovery rate of DFR was 93%, while in comparison, the number of default loans at Janata Bank Limited (JB) declined. 77 percentage points (2014) as a result of an improved recovery mechanism. The strategic and efficient levels of engagement in their performance evaluations demonstrate the differences between the two banks' recovery systems.

Ali et al. (2014) published a journal titled Loan Disbursement and Recovery Performance of Crops and Livestock of RAKUB – A case study of Binodpur Branch, Rajsthahi, Bangladesh. This study's primary goal was to identify the causes of the poor loan recovery performance. To examine the data, the researcher employed descriptive statistics analysis. The branch has been found to be ahead of schedule in terms of loan disbursement; however,

the loans that have already been disbursed are unrecovered and classified because the funds were used for personal family expenses, festival expenses, and natural disasters like floods, rain with hail, and droughts.

Narish and Sarker (2014) conducted a journal with the title Disbursement and Recovery of Rural Credit; a study on the Rajapur Branch of Rupali Bank Limited. This study's primary goal was to ascertain how well Rupali Bank Limited's rural credit was being disbursed and recovered in two distinct industries: agriculture and industry. Regression analysis and the T-test were employed by the researcher to examine the data. It is discovered that while the two variables—business type and income level—are statistically significant, the coefficients representing age and education are not. The close relationship between family size and recovery performance suggests that having fewer family members, a higher income group, and loan disbursement in the business sector.

**Table 1**

*Meta table*

<b>Authors</b>	<b>Topic</b>	<b>Objective</b>	<b>Methodology</b>	<b>Findings</b>
Adegbola et al. (2023)	Credit Management Practices and Loan Default in Deposit Money Banks (DMBs) in Osun State, Nigeria	To examine the effect of credit management practices on loan default in deposit money banks in Osun State	Descriptive Statistics, Multiple Regression Analysis	Credit monitoring and credit appraisal both showed negative but non-significant effects on loan default, while credit collection strategy showed positive and substantial effects on loans. The study concluded that credit management had no significant effect on loan default.
Kowa and Turianwe (2023)	A critical analysis of loan policies and loan recovery at a Saving and Credit Cooperative	To investigate the effect of loan policies on loan recovery in a Christian-based Saving and Credit	Regression Analysis	The outcome showed that, despite a mere 3.3% possibility, lending policies are predictive of loan recovery efficacy. Among the three components of

	Organization (SACOO) in Uganda: A case of Y-Save SACOO	Cooperatives in Organization (SACOO) using Y-Save Multipurpose Society Limited in Kampala Uganda as a case study		lending policies, loan appraisal is the one that most closely forecasts loan recovery.
Maina and Njeru (2023)	The influence of credit risk management practices on the loan recovery performance of the registered digital credit providers in Kenya	To assess how risk methods for managing credit risk affect the capacity of digital credit providers in Kenya to recoup loans	Multiple Linear Regression	The results show that all the factors have a positive link, with credit procedures having the biggest impact on loan recovery success. The ANOVA results show that every independent variable influence loan recovery performance through prediction. A unit increase in the independent variable—credit procedures, credit assessment, credit monitoring, or credit recovery systems— influences loan recovery performance, holding all other variables constant at zero.
Odumusor et al. (2023)	The Effect of Debt Recovery Techniques on the Performance of the Banking Sector (a study of selected	To examine the effect of debt recovery techniques on the performance of the banking sector	ordinary least square regression analysis	The results of the study showed that some deposit money institutions' performance is significantly impacted by debt rescheduling. The study

deposit money banks in Ogoja, Cross River State, Nigeria)

also showed that the performance of particular deposit money institutions is significantly impacted by the repossession of security. The study also discovered that the performance of particular deposit money banks is significantly impacted by the auction.

Usendok et al. (2023) The Effect of credit management systems on loan recovery efforts of microfinance banks in Akwa Ibom State

To ascertain the effect of credit management techniques on loan recovery efforts by microfinance banks

Regression Analysis

It was concluded that Credit appraisal, credit risk control and collection policy were found to be very important in influencing loan recovery.

Yuliansyah et. al. (2023) An analysis of the partnership program's effectiveness in distributing loans and collection loans as BUMN PKBL responsibilities from 2017 to 2019

To evaluate the efficacy of partnership program credit distribution and credit collecting as a means of BUMN PKBL accountability in 2017 – 2019

Ratio Analysis

The results showed that all companies were very good at fulfilling their responsibilities regarding partnership projects (PK). Although BUMN usually disburses funds quite successfully, certain companies continue to disperse their partnership program loans inefficiently. Similar conditions apply to loan payback collection rates, with certain BUMNs having relatively low rates

Revati & Kumar (2022)	Study on problems related to loan granting and recovery at SBI Bank	To assess the loan granting and its recovery problems on SBI Banks	Chi-square, Descriptive Statistics, ANOVA Analysis	and others having rather high rates.	The study concluded that because loan repayment schedules are designed with the future in mind, there is always some degree of risk associated with creating credit through loan issuing. The majority of loans made by SBI Banks are not repaid quickly and end up as bad debts.
Umar (2022)	The determinants of loan default among microfinance banks' borrowers in Kano State, Nigeria	To examine how personal and business characteristics of micro, small and medium enterprise (MSMEs) borrowers of microfinance banks influence loan default	logit and probit		The results showed that the size of the family, gender, and age of the business are important factors that influence loan default. The size and location of the firm, the borrowers' marital status, and their age were found to be unimportant in predicting loan default among microfinance MSME borrowers.
Muttappa & Baligatti (2021)	The problems related to loan granting and its recovery in commercial banks	To find out the several problems facing loan recovery, the effects of loan default on commercial banks	Percentages, Chi-square		In this article, researchers found that there has been default on loan repayment and also found the major effect these have on banks is that the loan is reduced to a minimum.

		and the measures that will be used in reducing the incidence of loan default		
Nwaubani (2021)	The assessment of the implication of loan default and recovery drive on the profitability of Deposit Money Banks in Abuja	To assess the implication of loan default and recovery drive and its impact on the profitability of Deposit Money Banks in Abuja	Pearson's Correlation	The study's findings demonstrated a substantial correlation between overdue loans and profitability, recovery issues and profitability, a lacklustre project viability analysis and profitability, and loan default and Deposit Money Banks' risk management practices.
Courx et al. (2020)	The Important factors determining Fintech loan default: evidence from a Lending Club consumer platform	To examine the default determinants of Fintech loans	Logistic Regression Analysis	The findings suggested that it would be crucial for regulators to be more open with guidance and regulatory clarity regarding the kind of alternative data that can be used lawfully without breaking fair lending regulations. Lenders must be more aware of the judgments they make and recognize that they could be influenced by intricate algorithms operating inside of "black boxes."
Nor et al.	Recovery issued	To investigate the	Descriptive	The result of the study

(2020)	on Murabahah Financing in Malaysia	recovery issue of Murabahah financing in Malaysia	and Content Analysis	showed that the issue of Ta'widh Murabahah restructuring and guarantees are of common weight while the issue of ibra is also important lately. In addition to the problems with recovery, it is observed that there is ongoing noncompliance with the regulations set forth by the regulator and that a significant reliance on common laws is both inevitable and ongoing.
Lyimo (2019)	The causes of loan delinquency by small and medium enterprises in Dar Es Salaam Tanzania	To identify the factors that contribute to loan delinquency in Tanzania's Dar Es Salaam small and medium-sized businesses	Regression Analysis, Correlation Analysis	The results show that borrowing money has become more common for reasons such as diversification, market expansion, and launching new ventures, all of which increase loan delinquencies. The results of the study also showed that among the SMEs under investigation, management competency had a negative impact on loan delinquency. Additionally, it was shown that among SMEs in Dar es Salaam, innovativeness had a negative but insignificant

Mwembezi and Lusanjala (2019) The determinants of loan defaults in financial institutions: A case of two selected Sumbawanga Municipality To evaluate the extent of loan default rates for the selected financial institutions (FIs) Binary Logistic Regression Model

link with loan default. This suggests that experimenting, introducing new goods or services, and incorporating staff ideas into the company have a negligible impact on the decline in delinquent loans.

The results demonstrated that both institutions had loan defaults. Still, between 2013 and 2018, there was a decline in the loan default rate. Furthermore, the results of the logistic regression model indicated that the borrowers' age and the interest rate that Fis charged were significant at ( $P < 0.05$ ), whereas the business type, business management education, and loan uses were significant at ( $P < 0.01$ ). The majority of respondents stated that two of the biggest consequences loan defaulters face are losing their assets and being denied future loans. The effects stated by FIs include loss of interest income, decline of operating profit through provision for bad

Tin (2019)	The evaluation of the effectiveness of loan recovery strategies in Myanmar microfinance institutions: A case study of proximity finance	To analyze the factors that contribute to delinquency and default in Myanmar's microfinance institutions as well as the efficacy of Proximity Finance's debt recovery techniques	Descriptive Survey Design, Random Sample Approaches	debts, and limitation of lending capacity. According to this report, inadequate loan size, loan term, payment schedule, overlapping loans, and inadequate client communication are the primary causes of loan default in Myanmar. The employee survey's findings indicated that the majority of Proximity Finance's tactics and procedures adhere to international standards and best practices. He has already addressed every common cause of loan default in his practices and tactics, and some of them are still included in the migration plan. The joint obligation methodology was employed in the credit assessment evaluation processes and practices to ensure loan payback, and it was shown to be highly effective. Loan supervision and pre- and post-regular monitoring are carried out effectively. Procedures,
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Gatimu et al. (2018)	The effect of non-performing loan management practices on the loan recovery performance of Deposit-Taking savings and credit cooperatives in Kenya	To determine the effect of non-performing loan management practices on the loan recovery performance of deposit-taking savings and credit cooperatives in Kenya	Regression Analysis, Descriptive Statistics	processes, and policies are recorded, updated, and routinely examined. Stakeholders will require the study's conclusions in order to formulate suitable management choices and policies regarding loan performance in SACCOs.
Mambova et al. (2017)	The determinants of loan default in microfinance institutions in Tanzania: a case of two selected microfinance institutions in Dodoma Municipality.	To assess the determinants of loan defaults in selected microfinance	Logistic Regression Analysis	The findings showed that while business type, business management education, and loan uses were found to be relevant, the age of borrowers and the interest rate imposed by MFIs were shown to be significant. The bulk of respondents and key sources stated that MFIs used capacity building, frequent communication, rejecting borrowers for the next loan opportunity, and holding defaulters' property as strategies to lessen default concerns.
Taiwo et al.	Credit risk	To investigate the	Multiple	The outcome demonstrated

al. (2017)	management: implications on bank performance and lending growth	quantitative effect of credit risk management on the performance of deposit money banks and bank lending growth	Linear Regression Analysis	how effective credit management techniques may raise savers' and investors' trust in banks, which in turn increases the amount of money available for loans and advances and raises bank profitability. The growth of the total loans and advances made by Nigerian deposit money institutions is not significantly impacted by credit risk management.
Mishra (2016)	Recovery of Institutional Agriculture Loan	To examine the significant difference in the recovery position of agricultural loans across the banks and between the types of agricultural loans	ANOVA	The data above reveals that banks are unable to recover the loans that have been disbursed. However, cooperative banks have the biggest collection of short-term agricultural loans that are disbursed. Public sector banks and regional rural banks come next, in that order. When it comes to the banks' recovery of agricultural term loans, things are different. Public sector banks have gathered more agricultural term loans than regional rural banks, while cooperative banks have collected very

Mwangi and Muturi (2016)	The effect of credit risk management on the loan repayment performance of commercial banks in Kenya	To determine the effect of organizational credit policies on the loan repayment performance of commercial banks	Descriptive Statistics, Regression Analysis	little if any, agricultural term loan distribution.	The findings revealed positive significant relationships between the variables all set at Organizational credit policies correlated, while risk identification processes correlated, debt collection processes and credit scoring correlated. The study's conclusions showed that loan repayment performance is impacted by credit risk management. According to the findings, commercial banks who are successful in putting their organizational credit policies into practice would see an improvement in their borrowers' loan payback.
Obeng and Krah (2016)	Default risk and debt recovery strategies of microfinance institutions: a comparative study of MFIs in Ghana	To identify and compare the strategies used by SIL and PCSL to minimize the risk of default and to recover debt	Mean, Standard Deviation	The results showed that PCSL's ratio of non-performing loans was lower than the industry standard. The non-performing loan ratio for SIL was the same as the industry average. The study concluded that PCSL's debt recovery tactics outperform SIL's	

Bala (2015)	Analysis of the Agriculture loan repayment performance of Regional Rural banks; A Case Study of District Sirsa, India	To examine how well agricultural loans recovered as well as the difficulties respondents had making their repayments	Percentages, Averages	tactics in comparison. According to the current study, 10% of borrowers have quickly increased their loan amounts from 25% to 50%, and some have even surpassed 70%. A high percentage of crop failure was linked by 60% of respondents to decreased income, and 17.5 percent of borrowers were determined to be defaulters. Their primary challenge in fulfilling loan obligations was the reason for the increased frequency of loan defaults.
Siddiqua and Zaman (2015)	Loan recovery and performance of commercial banks; a study on Jamuna Bank Limited (JBL) and Janata Bank Limited (JB)	To compare the recovery systems of two prominent banks in Bangladesh with regard to the crucial recovery issue	Average, Percentage	According to the study (2010), the recovery rate of DFR was 93%, while in comparison, the number of default loans at Janata Bank Limited (JB) declined. 77 percentage points (2014) as a result of an improved recovery mechanism. The strategic and efficient levels of engagement in their performance evaluations demonstrate the differences between the two banks' recovery systems.

Ali et al. (2014)	Loan Disbursement and Recovery Performance of Crops and Livestock of RAKUB – A case study of Binodpur Branch, Rajsthahi, Bangladesh	To identify the causes of the poor loan recovery performance	Descriptive Statistics Analysis	The branch has been found to be ahead of schedule in terms of loan disbursement; however, the loans that have already been disbursed are unrecovered and classified because the funds were used for personal family expenses, festival expenses, and natural disasters like floods, rain with hail, and droughts.
Narish and Sarker (2014)	Disbursement and Recovery of Rural Credit; A Study on the Rajapur Branch of Rupali Bank Limited	To ascertain how well Rupali Bank Limited's rural credit was being disbursed and recovered in two distinct industries: agriculture and industry	Regression Analysis, T-test	It is discovered that while the two variables—business type and income level—are statistically significant, the coefficients representing age and education are not. The close relationship between family size and recovery performance suggests that having fewer family members, a higher income group, and loan disbursement in the business sector.

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### 2.3 Research Gap

There are theoretical and empirical gaps, as the literature survey has demonstrated. There is a clear correlation between the reasons behind loan default and the difficulties bank employees have while accepting and overseeing loans from borrowers. As a result, the gap needs to be closed, and this study specifically attempts to do so. A small number of researchers have studied the loan recovery and lending issues faced by Nepal's commercial banks. But as of yet, no comparative analysis has been done between Nepal Bank Limited.

This study is unique from previous research because of a few factors.

The majority of the current research on this subject ignores important qualitative and behavioral factors that affect loan repayment behavior in favor of concentrating on the quantitative aspects of credit risk assessment, such as non-performing loans, loan recovery rates, loan reserve ratios, debt-to-income ratios, and collateral evaluation. Since borrowers' borrowing habits are constantly shaped by their attitudes, financial literacy, cultural norms, and macroeconomic conditions, a thorough examination of these non-traditional variables is important in order to enhance the lending process.

Moreover, research that has already been done frequently ignores the part financial institutions play in promoting prudent borrowing and offering continuous assistance to borrowers who are having trouble making their payments. Research on creative loan restructuring techniques, borrower education initiatives, and alternative credit assessment approaches that can raise the likelihood of a successful debt recovery and lower default rates is scarce.

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

The methodical and structured process that researchers use to collect, evaluate, and analyze data in order to answer a particular study question or goal is known as research methodology. It entails choosing the best study design, data gathering strategies, and data analysis approaches to guarantee the validity, reliability, and generalizability of the results. The entire research process should be guided by a well-planned, convincing, and justified methodology to ensure that the findings are reliable and add to the body of information already known in the relevant field of study.

#### **3.1 Research Design**

The general plan or approach a researcher uses to successfully address the study problem or question is referred to as research design. It describes the precise actions that must be taken, the information that must be gathered, and the techniques that must be applied while analyzing the data. A carefully planned research project guarantees that the goals are achieved, the data is gathered methodically and thoroughly, and the conclusions are trustworthy and legitimate. Different kinds of study designs exist. The type of study topic, the resources at hand, ethical issues, and the degree of control the researcher has over variables all play a role in the research design selection. A well-thought-out research design is essential to producing insightful findings and advancing our understanding of the field under study.

This study intends to examine and evaluate the connection between a commercial bank's loan disbursement and recovery issues while providing recommendations in light of the findings. A mix of causal researcher design and descriptive survey design has been used to accomplish this aim. The descriptive method aims to showcase and describe the information gathered for this research project. To determine cause-and-effect correlations between variables, the causal researcher design manipulates one or more independent variables and then observes the impact on dependent variables, such as loan recovery and default. To prove causation, this kind of research usually uses experiments or quasi-experiments.

#### **3.2 Population and Sample**

Populations are all of the observations or units that fall under the purview of the study. A

sample is a representative subset of the population that embodies every trait found in the population. There are now twenty commercial banks in operation in Nepal. The target market is all of the nation's listed commercial banks. One commercial bank, Nepal Bank Limited, has been chosen as a sample out of all the commercial banks (NBL). The sample was chosen using the random sampling technique from among the government banks. Techniques for randomly selecting a selection of people from a broader group are known as random sampling techniques. By guaranteeing that every person in the population has an equal chance of being selected, this strategy lowers bias and improves the sample's representativeness. According to the bank's annual report for 2022–2023, Nepal Bank Limited employs 2725 people at the moment. To gather the data, a sample of one hundred respondents was selected. The basic data used in this study was gathered from 105 bank employees and 162 borrowers.

### **3.3 Nature of Data**

The goal of this study is to provide an overview of the loan issuing and recovery issues faced by Nepali commercial banks. The study's data came from bank employees and customers of particular commercial banks, such as NBL. The questionnaire provided the data. The questionnaire, several prior research, relevant bulletins, publications, and government agencies were the key sources from which the data was gathered.

### **3.4 Method of Analysis**

Because it makes it possible for researchers to accomplish their goals, data analysis is essential to research. In the contemporary setting, financial and statistical tools are considered to be the most dependable and efficient methods of data analysis. Researchers can guarantee efficiency, precision, ease, and dependability in their analysis by using these technologies. The study's chosen financial and statistical instruments are especially suited to the subject matter, guaranteeing their applicability and suitability for the job at hand.

### **Statistical Tools**

#### **a) Arithmetic Mean**

One value from the data range that is used to represent every value in the series is the mean, or average value. An average value is also referred to as a measure of central value since it falls somewhere within the data's range. To find the average value, take the total of all the words and divide it by the total number of items.

This formula is given below: -

$$\bar{X} = \frac{\sum X}{n}$$

Where,

$$\sum X = X_1 + X_2 + X_3 + \dots + X_n = \text{Sum of given set of observation}$$

n = Number of items observed.

X = Variables

### **b) Standard Deviation**

The dispersion or spread of data points around the mean is measured by the standard deviation. Increased standard deviation indicates more variation in the dataset. On the other hand, a smaller standard deviation denotes greater consistency between the data. It is an essential statistical tool for determining the predictability and dependability of data. The standard deviation is a widely used tool for assessing and interpreting data distributions in domains such as economics, science, and social sciences. Making wise decisions and deriving significant findings from data analysis is facilitated by an understanding of standard deviation.

In 1893, Karl Pearson proposed the standard deviation (SD) as a metric for dispersion. Sigma is typically used to indicate it ( $\sigma$ ). Dispersion is the measurement of the sauternes of the mass of figures in a series around an average; the absolute dispersion is determined by the standard deviation. The standard deviation increases with increasing dispersion and vice versa. A low standard deviation indicates both good observational uniformity and series homogeneity. A high standard deviation indicates that the series is not very homogeneous or uniform.

Symbolically,

$$SD (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

### **c) Frequency distribution**

A statistical depiction known as a frequency distribution shows how frequently a certain value or range of values occurs within a dataset by grouping data points into predetermined

ranges or intervals. This can be shown in a number of ways, including tables, bar charts, and histograms, where the data is arranged to highlight trends, patterns, and insights into the dataset's underlying distribution. Based on the observed frequencies of various data points or intervals, frequency distributions aid in the comprehension of data spread and central tendencies, the identification of outliers, and the formulation of well-informed decisions. They are essential tools in descriptive statistics because they offer a succinct and understandable synopsis of big data sets.

#### **d) Correlation Coefficient**

Correlation is defined as the "relationship" (of association) between (Among) the one dependent variable (or factor) and one (or more than one) independent variable (s) or factor (s). In other words, correlation is the relationship between (or among) two or more variables (i.e. only one variable dependent and one or more variable (s) independent).

$$\text{Correlation of Coefficient (r)} = \frac{n \cdot \sum XY - (\sum X)(\sum Y)}{\sqrt{n \cdot \sum X^2 - (\sum X)^2} \cdot \sqrt{n \cdot \sum Y^2 - (\sum Y)^2}}$$

Where,

n Number of pairs of observation.

X= Variable

Y = Variable

r = correlation of coefficient

#### **e) Regression Coefficient**

Modeling the link between a dependent variable and one or more independent variables is done statistically using regression. Finding the line or curve that best fits the data and forecasts the dependent variable's values from the independent variables' values is the main goal. Regression facilitates inference and prediction by assisting in the comprehension of correlation and in quantifying the direction and degree of the relationship between variables.

A statistical technique called regression analysis is employed to evaluate the strength of the correlation between one or more independent variables and a dependent variable. Examining the type and degree of the association between the variables is part of this analysis. Two kind of factors are considered in the regression process: the independent

variables, which are utilized to generate the predictions or explanations, and the dependent variable, which we try to forecast or explain. With the use of regression, we can forecast one variable based on the values of other variables that we know, or estimate unknown values. It is a useful tool for figuring out how strongly two variables in simple regression or more than two variables in multiple regression relate to one another.

The equation of a linear regression line is given as

$$Y = a + bx,$$

Where,

Y: This is the dependent variable

X: This is the independent variable

b: This is the coefficient or slope of the regression equation.

a: This is the intercept term or the constant term in the regression equation.

### **Multiple Linear Regression Analysis**

A statistical method for examining the relationship between two or more independent variables and a dependent variable is multiple regression analysis. It is an advancement above basic linear regression, which looks at the connection between one independent variable and one dependent variable. Finding out how the independent variables affect the dependent variable as a whole while accounting for their influence on one another is the aim of multiple regression.

The equation for a multiple regression model with 'p' independent variables is generally represented as:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

Where:

Y = Dependent variable.

X<sub>1</sub>, X<sub>2</sub>, ..., X<sub>4</sub> = Independent variables.

$\beta_0$  = Intercept.

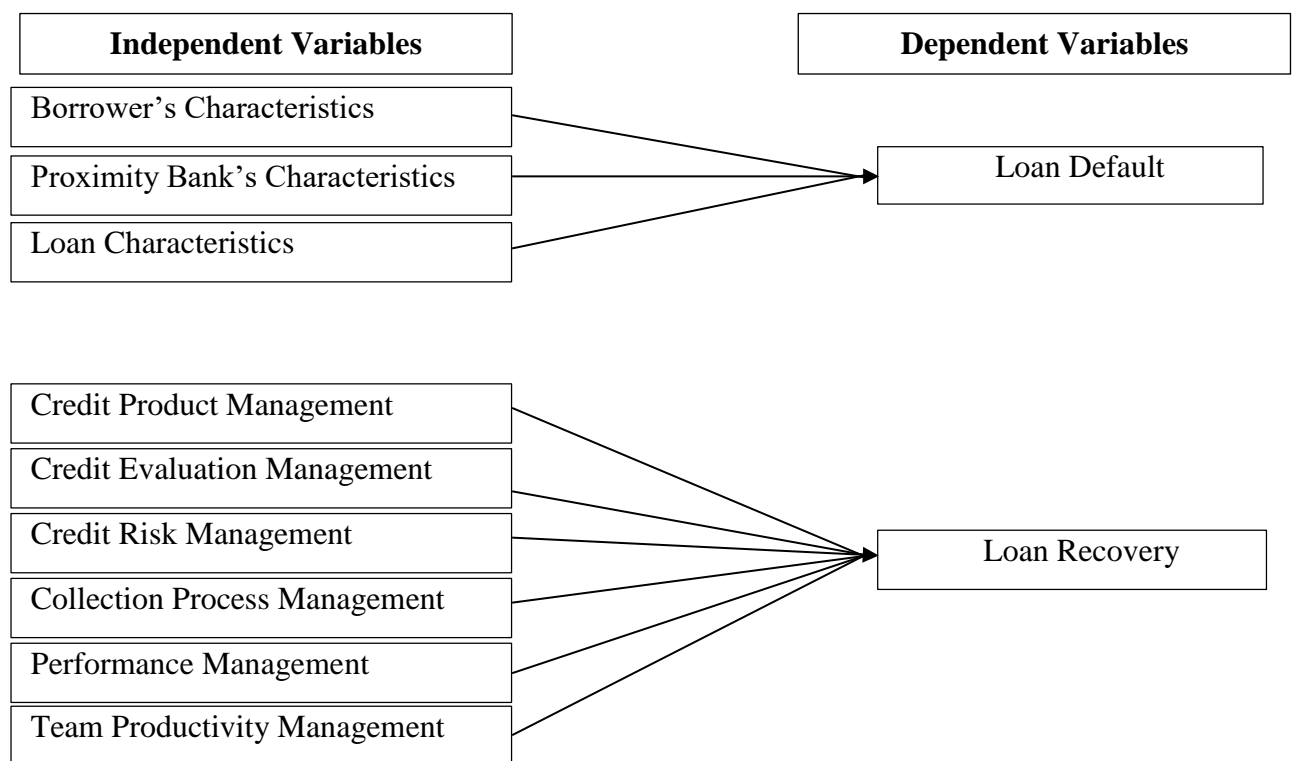
$\beta_1, \beta_2, \dots, \beta_4$  = coefficients that represent the effect of each independent variable.

$\varepsilon$  = Error term.

### 3.5 Research Framework and Variable Definitions

A conceptual framework is a paradigm that a researcher uses to arrange and comprehend a study issue based on their thoughts and subject-matter expertise. It acts as the cornerstone around which the whole research project is constructed. The development of the study's theoretical foundation, the creation of hypotheses, and the course of the research are all greatly influenced by the theoretical framework. Since the primary goal of research is to establish hypotheses and investigate challenges, answering research questions successfully requires a theoretical framework that has been carefully constructed. This framework gives a graphical depiction of the correlations between the variables or features that have been chosen to be included in the study.

*Figure 1 Independent and dependent variables*



*(Sources: Tin, 2019, Mosha, 2016)*

The above charts display the variables that are used for this research. The purpose of this study is to investigate the loan recovery and lending issues faced by Nepali commercial banks. The conceptual framework illustrates the relationship between the independent and dependent variables of loan recovery and default. Loan delinquency and default are influenced by a wide range of independent factors, including employee competency and skills, firm policies and procedures, credit risk management, gender, marital status, number

of children, income, credit history, loan size, duration, and payment term. Each component directly affects loan delinquency and default. Using best practices and strategies can also have an instant impact on and help the firm recover its debt. The best practices and strategies that function as independent variables are credit product management, credit risk management, credit assessment management, collection process management, team productivity management, and performance management. The more capital a company invests in ongoing operations, the greater success it can have in reducing loan default and recovering loan payback.

## CHAPTER IV

### RESULTS AND DISCUSSION

This chapter has presented the data in appropriate format, then analyzed and discussed. The analysis has sought to answer the research questions posed in the introduction chapter. The outcomes of the analyses are the results. The results are then discussed and interpreted in the light of theories and empirical studies to conclude. Accordingly, this chapter is organized in the following order:

#### 4.1 Results

##### 4.1.1 Frequency Distribution Analysis

A frequency distribution is a statistical representation that tallies the occurrences of distinct values within a dataset. It organises data into categories and records how frequently each category appears. By summarizing the distribution of values, frequency distributions provide insights into the central tendency, dispersion, and overall shape of the data. They are fundamental in understanding patterns, trends, and variability within a dataset, aiding in descriptive statistics and forming the basis for further analysis and inference in various fields, including social sciences, economics, and natural sciences.

**Table 2**

*Demographic profile of the borrower's characteristics*

		Frequency	Percent
Valid	<b>Gender</b>		
	Female	90	55.6
	Male	72	44.4
	<b>Age</b>		
	18-25	50	30.9
	26-35	79	48.8
	36-45	19	11.7
	46-55	13	8.0
	Above 55	1	0.6
	<b>Educational background</b>		
Diploma/High school	45	27.8	
Graduate	60	37.0	

Post Graduate and above	34	21.0
Primary school	2	1.2
Secondary school	21	13.0
<b>Marital status</b>		
No	67	41.4
Yes	95	58.6
<b>Employment status</b>		
Other (Businessman)	2	1.2
Employed	99	61.1
Self-employed	26	16.0
Student	25	15.4
Unemployed	10	6.2
<b>Monthly household income</b>		
Rs. 50,001 - 100,000	50	30.9
Rs. 50,000	63	38.9
Rs. 200,001 - 400,000	14	8.6
Rs. 100,001 - 200,000	24	14.8
Above Rs. 400,000	11	6.8
<b>Total</b>	<b>162</b>	<b>100.0</b>

*(Sources: Data output from SPSS 27.0 analysis)*

Table 2, displays the frequency distribution table of the demographic profile of the characteristics of borrowers. In this study, 162 respondents are borrowers, there are 90 females and 72 males accounting for 55.6% and 44.4% respectively of the total sample (borrowers). This indicates that the proportion of female respondents is higher than males.

There were 50 respondents from the age group 18-25, constituting 30.9% of the total population. Similarly, the largest proportion of borrowers fell into the age group 26-35, with 79 individuals, accounting for 48.8% of the total sample. There were 19 respondents in the age group 36-45, representing 11.7% of the total sample. The total no of respondents in the age group 46-55 was 13, accounting for 8% of the total sample. There was one individual from the age group above 55, accounting for 0.6% of the total sample. Which is a smaller proportion of the respondents.

The table presents data on the level of education of the borrower. Among the surveyed population, 45 respondents reported having completed their education at the Diploma/High School, representing 27.8% of the total sample. Most respondents, 60 individuals, had completed graduation, making up 37.0% of the total sample. The proportion of postgraduates and above had 34 respondents, accounting for 21% of the total sample. Two respondents were from primary school, representing 1.25% of the total sample. The proportion of secondary school had 21 respondents, accounting for 13% of the sample. The largest proportion of the respondents completed their graduation level.

The table presents the marital status of the respondents. There were 67 unmarried respondents, accounting for 41.4% of the total sample. 95 borrowers were married, representing 58.6% of the sample. The proportion of married respondents was higher than unmarried.

The table shows the employment status of the respondents. Two respondents are from other categories i.e. businessmen, representing 1.2% of the total sample. The proportion of employed respondents was 99, accounting for 61.1% of the sample, which is the largest proportion among the employment statuses. The proportion of self-employed had 26 respondents, representing 16% of the sample. There were 25 students, accounting for 15.4% of the sample. Ten respondents are unemployed, accounting for 6.2% of the sample.

The table presents the monthly household income of the borrowers. Among the surveyed population, 50 respondents (borrowers) income between 50,000 – 100,000, accounting for 30.9% of the sample. 63 respondents had a below 50,000 monthly income, accounting for 38.9% of the sample. The proportion of monthly household income levels between 200,001 – 400,000 was 14, representing 8.6% of the sample. The proportion of borrower's monthly household monthly income between 100,001 to 200,000 was 24, accounting for 14.8% of the borrowers. The proportion of monthly household income of borrowers above 400,000 was 11, accounting for 6.8% of the sample. The majority of borrowers' monthly household income was below 50,000.

**Table 3***Demographic profile of the bank officer*

		<b>Frequency</b>	<b>Percent</b>
Valid	<b>Gender</b>		
	Female	47	44.8
	Male	58	55.2
	<b>Educational Background</b>		
	Diploma/High school	2	1.9
	Graduate	62	59.0
	Post Graduate and above	41	39.0
	<b>Designation</b>		
	Credit Officer	38	36.2
	Credit Analyst	20	19.0
	Credit Monitoring Manager	18	17.1
	Branch Manager	11	10.5
	Teller and Operation Manager	18	17.1
	<b>Experience</b>		
	1 year and below	3	2.9
	1-3 years	9	8.6
	3-5 years	20	19.0
	5-7 years	45	42.9
	Above 7 years	28	26.7
	<b>Total</b>	<b>105</b>	<b>100.0</b>

*(Sources: Data output from SPSS 27.0 analysis)*

Table 3, displays the frequency distribution table of the demographic profile of the characteristics of bank officers. In this study, 105 respondents were bank officers, there are 47 females and 58 males accounting for 44.8% and 55.5% respectively of the total sample (bank employees). This indicates that the proportion of male respondents is higher than females.

The table presents data on the level of education of the bank officers. Among the surveyed population, 2 respondents reported having completed their education at the Diploma/High School, representing 1.9% of the total sample. Most respondents, 62 individuals, had

completed graduation, making up 59.0% of the total sample. The proportion of postgraduates and above had 41 respondents, accounting for 39% of the total sample. The largest proportion of the bank officers completed their graduation level.

The table represents the data on the position of the bank officer. The proportion of credit officers was 38, accounting for 36.2% of the sample. The proportion of credit analysts was 20, representing 19% of the sample. The proportion of credit monitoring managers and the teller and operation managers had 18 respondents, accounting for 17.1% of the sample. The proportion of branch managers was 11, representing 10.5% of the sample. The credit officer had the largest number of respondents among other officers.

The table presents data on the experience of respondents in the banking sector, including the frequency and percentage of respondents within each experience. The proportion of the respondents who had 1 year and below experience in the banking sector was 3, accounting for 2.9% of the sample. Among the surveyed population, 9 respondents reported having 1 to 3 years of experience in the banking sector, constituting 8.6% of the total sample. The proportion of bank officers with experience in the banking sector between 3 to 5 years, with 20 individuals, accounting for 19% of the sample. The majority of the respondents were in the banking sector between 5 to 7 years, with 45 individuals, accounting for 42.9% of the total sample. and 28 respondents stated they have above 7 years of experience in the banking sector, accounting for 26.7% of the total sample.

#### **4.1.2 Descriptive Statistics**

Statistics, which describe the data that have been gathered, are called descriptive statistics. The data are focused on two aspects of the distribution: the central tendency and the dispersion. Frequencies, mean, median, mode, standard deviation and measure of dispersion are examples of descriptive statistics. Descriptive statistics allows to summarize the proportion of an entire distribution of scores with just a few numbers.

Brief informational coefficients known as descriptive statistics are used to provide an overview of a specific data collection, which may be a sample or a representative of the full population. Measurements of central tendency and measurements of variability (spread) are the two categories into which descriptive statistics fall. The standard deviation, variance, minimum and maximum variables are measures of variability, whereas the mean, median, and mode are measures of central tendency.

**Table 4***Descriptive statistics of borrowers*

	N	Mean	Std. Deviation
Borrower characteristics	162	16.8086	3.43807
Proximity banks characteristics	162	31.6420	4.46465
Loan characteristics	162	20.1481	3.02623
Loan default	162	4.7901	2.02908
Valid N (listwise)	162		

*(Sources: Data output from SPSS 27.0 analysis)*

Table 4, represents the descriptive statistics. The average value of the borrower's characteristics was 16.8086, which indicates the average estimation of the observations. The standard deviation of the borrower's characteristics was 4.43807, indicating the extent of dispersion or variability around the average borrower's characteristics. The average value of the proximity bank's characteristics was 31.6420, which indicates an average value of the observations. The standard deviation of the proximity bank's characteristics was 4.46465, providing the extent of variability around the mean value of the proximity bank's characteristics.

The average value of the loan characteristics was 20.1481, which indicates the average estimation of the observations. The standard deviation of the loan characteristics was 3.02623, indicating the extent of dispersion or variability around the average loan characteristics. The average value of the loan default was 4.7901, which indicates an average value of the observations. The standard deviation of the loan default was 2.02908, providing the extent of variability around the mean value of the loan default. N represent the lower no of respondents in the observations.

**Table 5***Descriptive statistics of bank officers*

	N	Mean	Std. Deviation
CPM	105	14.9714	1.45746
CEM	105	11.3143	1.27335
CRM	104	18.0192	2.55039
CPM2	30	19.6333	2.41380
PM	103	21.0194	1.82564
TPM	101	15.2970	1.38957
LR	102	22.3922	2.75450
Valid N (listwise)	27		

*(Sources: Data output from SPSS 27.0 analysis)*

Table 5, represents the descriptive statistics. The average value of the credit product management (CPM) was 16.8086, which indicates the average estimation of the observations. The standard deviation of the credit product management (CPM) was 1.45746, indicating the extent of dispersion or variability around the average credit product management (CPM). The average value of the credit evaluation management (CEM) was 11.3143, which indicates an average value of the observations. The standard deviation of the credit evaluation management (CEM) was 1.27335, providing the extent of variability around the mean value of the credit evaluation management (CEM).

The average value of the credit risk management (CRM) was 18.0192, which indicates the average estimation of the observations. The standard deviation of the credit risk management (CRM) was 2.55039, indicating the extent of dispersion or variability around the average credit risk management (CRM). The average value of collection process management (CPM2) was 19.6333, which indicates an average value of the observations. The standard deviation of the of collection process management (CPM2) was 2.41380, providing the extent of variability around the mean value of the of collection process management (CPM2). N represent the lower no of respondents in the observations.

The average value of the performance management (PM) was 21.0194, which indicates the average estimation of the observations. The standard deviation of the performance management (PM) was 1.82564, indicating the extent of dispersion or variability around the average performance management (PM). The average value of team productivity

management (TPM) was 15.2970, which indicates an average value of the observations. The standard deviation of the of team productivity management (TPM) was 1.38957, providing the extent of variability around the mean value of the of team productivity management (TPM). N represent the lower no of respondents in the observations.

#### 4.1.3 Correlation Analysis

Correlation analysis measures the strength and direction of the linear relationship between two variables. It produces a correlation coefficient, ranging from -1 to 1, where values close to 1 or -1 indicate strong positive or negative relationships, respectively, and values close to 0 suggest no linear relationship. This analysis helps determine whether and how strongly pairs of variables are related.

**Table 6**

*Correlation Analysis*

		Borrower characteristics	Proximity banks characteristics	Loan characteristics	Loan default
Borrower characteristics	Pearson Correlation	1			
Proximity banks characteristics	Pearson Correlation	.188*	1		
Loan characteristics	Pearson Correlation	-.205**	-.219**	1	
Loan default	Pearson Correlation	-0.114	-.250**	0.107	1
	N	162	162	162	162

\*. Correlation is significant at the 0.05 level (2-tailed).

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

*(Sources: Data output from SPSS 27.0 analysis)*

Table 6, represents the correlation analysis. The Pearson correlation coefficient of borrower's characteristics is -0.114, which is negative, indicating that the relationship between borrower's characteristics and loan default is negative and insignificant. The Pearson correlation coefficient of the proximity of banks' characteristics is -0.250, which is a negative coefficient, indicating that the proximity of banks' characteristics has a

negative and significant relationship with loan default. The Pearson correlation coefficient of loan characteristics is 0.107, and the relationship between the loan characteristics and the loan default is positive.

**Table 7**

*Correlation Analysis*

		CPM	CEM	CRM	CPM2	PM	TPM	LR
CPM	Pearson	1						
	Correlation							
CEM	Pearson	0.088	1					
	Correlation							
CRM	Pearson	0.128	0.031	1				
	Correlation							
CPM2	Pearson	-0.012	0.191	0.107	1			
	Correlation							
PM	Pearson	.369**	.299**	-0.027	0.166	1		
	Correlation							
TPM	Pearson	.353**	.367**	-0.015	0.214	.688**	1	
	Correlation							
LR	Pearson	0.082	0.092	.415**	.611**	.255*	0.171	1
	Correlation							
	N	102	102	101	30	101	99	102

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

\* . Correlation is significant at the 0.05 level (2-tailed).

*(Sources: Data output from SPSS 27.0 analysis)*

Table 7, represents the correlation analysis. The Pearson correlation coefficient of credit product management (CPM) is 0.082, which indicates the positive relationship between credit product management and loan recovery. The Pearson correlation coefficient of credit evaluation management (CEM) is 0.092, which shows a positive relationship between credit evaluation management and loan recovery. The Pearson correlation coefficient of credit risk management (CRM) is 0.415, which indicates a positive and significant relationship between credit risk management and loan recovery. The Pearson correlation coefficient of collection procedures management (CPM2) is 0.611, which shows a positive and significant relationship between collection procedures management and loan recovery.

The Pearson correlation coefficient of performance management (PM) is 0.255, which indicates a positive and significant relationship between performance management and loan recovery. The Pearson correlation coefficient of team productivity management (TPM) is 0.171, which indicates a positive relationship between team productivity management and loan recovery.

#### 4.1.4 Regression analysis

Regression analysis is a statistical technique used to derive an equation that relates a single criterion variable to one or more predictor variables. When there is one predictor variable, it is a simple regression analysis. It is a multiple regression analysis with two or more predictor variables. With linear regression, the researcher can estimate the value of a criterion variable given the value of a predictor. The least square regression line is the strongest line that best fits the data on a scatter diagram. This line minimizes the sum of the squared distances between each data point and the line. The amount of discrepancy between the value of Y predicted with the regression equation and the actual values is provided by the standard error of the estimate.

#### Model summary

**Table 8**

*Model Summary*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.263 <sup>a</sup>	0.069	0.052	1.97611

a. Predictors: (Constant), Loan characteristics, Borrowers characteristics, Proximity banks characteristics

*(Sources: Data output from SPSS 27.0 analysis)*

Table 8, shows the model summary of the regression analysis. The R square is to be 0.069, it shows the model has been explained. The independent variables such as borrower's characteristics, proximity bank's characteristics and loan characteristics variance account for 0.069 i.e. 6.99% on the dependent variable (loan default). The remaining percentage is due to other factors. A higher R square value indicates that a sizable percentage of the loan default variability can be explained by predictors, as per the model summary table. The value of the standard error of the estimation is 1.97611, which indicates the average distance between sample estimates and the population parameter. A smaller standard error

signifies increased precision and confidence in the accuracy of the sample statistic. It plays a vital role in evaluating the reliability of statistical estimates and in concluding the population from sample data.

### ANOVA analysis

**Table 9**

*ANOVA analysis*

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	45.871	3	15.290	3.916	.010 <sup>b</sup>
Residual	616.993	158	3.905		
Total	662.864	161			

a. Dependent Variable: Loan default

b. Predictors: (Constant), Loan characteristics, Borrowers characteristics, Proximity banks characteristics

*(Sources: Data output from SPSS 27.0 analysis)*

Table 9, demonstrates the analysis of variance, in the given table the overall fitting of the model is significant when the significance value is less than the level of significance i.e.  $0.010 < 0.05$ . The observed result is unlikely to have happened by coincidence, demonstrating a significant correlation between the model parameter and the expected result. The significance value connected with the F-value. Overall, the ANOVA table indicates that the regression model significantly affects how the variation in loan default is explained. The predictors (borrower's characteristics, proximity bank's characteristics, loan characteristics) collectively make a considerable contribution to the forecast of loan default.

### Regression coefficient table

The multiple linear regression model was found,

$$Y (LD) = 8.101 - 0.037BC_1 - 0.104PBC_2 + 0.030LC_3$$

Where,

Y (LD) = Loan default as a dependent variable

$\alpha$  = Intercept

$\beta_0$  = Coefficient of the intercept

BC<sub>1</sub> = Borrower's Characteristics as independent variables

PBC<sub>2</sub> = Proximity Bank's Characteristics as independent variables

LC<sub>3</sub> = Loan Characteristics as independent variables

The loan default (Y) is the dependent variable in the regression model represented by the given equation, while the Borrower's characteristics (X<sub>1</sub>), proximity bank's characteristics (X<sub>2</sub>), and loan characteristics (X<sub>3</sub>) are the independent variables. Understanding the relationship between these factors and loan default is possible thanks to the coefficient linked to them.

**Table 10**

*Regression coefficient table of loan default*

Model		Unstandardized		Standardized		
		Coefficients		Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	8.101	1.897		4.270	0.000
	Borrower characteristics	-0.037	0.047	-0.062	-0.785	0.434
	Proximity banks characteristics	-0.104	0.036	-0.229	-2.878	0.005
	Loan characteristics	0.030	0.054	0.044	0.556	0.579

a. Dependent Variable: Loan default

*(Sources: Data output from SPSS 27.0 analysis)*

Table 10, shows the multiple linear regression analysis. The estimated value of loan default is represented by the intercept term i.e. 8.101 when all independent variables are set to zero. However, independent variables' beta values are important.

The regression coefficient of borrower's characteristics is -0.037 and the significance value is 0.434, indicating a negative but not statistically significant impact on loan default. The coefficient of proximity banks characteristics is -0.104 and the significance value is 0.005, indicating a negative and significant impact on loan default. The coefficient of loan characteristics is positive 0.030 and the significance value is 0.579, which means that loan default is positively but not significantly influenced by the loan characteristics. This

indicates that as loan characteristics increase, the likelihood of loan default also increases, albeit slightly. However, the effect size is very small (0.030), suggesting a weak relationship.

### Model summary

**Table 11**

*Model Summary*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.684 <sup>a</sup>	0.468	0.309	2.10232

a. Predictors: (Constant), TPM, CRM, CPM2, CPM, CEM, PM

*(Sources: Data output from SPSS 27.0 analysis)*

Table 11, shows the model summary of the regression analysis. The R square is to be 0.468, it shows the model has been explained. The independent variables such as credit product management, credit evaluation management, credit risk management, collection process management, performance management and team productivity management variance account for 0.468 i.e. 46.8% on the dependent variable (loan recovery). The remaining percentage is due to other factors. A higher R square value indicates that a sizable percentage of the loan recovery variability can be explained by predictors, as per the model summary table. The value of the standard error of the estimation is 2.10232, which indicates the average distance between sample estimates and the population parameter. A smaller standard error signifies increased precision and confidence in the accuracy of the sample statistic. It plays a vital role in evaluating the reliability of statistical estimates and in concluding the population from sample data.

### ANOVA analysis

**Table 12**

*ANOVA analysis*

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	77.901	6	12.984	2.938	.032 <sup>b</sup>
Residual	88.395	20	4.420		
Total	166.296	26			

a. Dependent Variable: LR

b. Predictors: (Constant), TPM, CRM, CPM2, CPM, CEM, PM

*(Sources: Data output from SPSS 27.0 analysis)*

Table 12, demonstrates the analysis of variance, in the given table the overall fitting of the model is significant when the significance value is less than the level of significance i.e.  $0.032 < 0.05$ . The observed result is unlikely to have happened by coincidence, demonstrating a significant correlation between the model parameter and the expected result. The significance value is connected with the F-value. Overall, the ANOVA table indicates that the regression model significantly affects how the variation in loan recovery is explained. The predictors (credit product management, credit evaluation management, credit risk management, collection process management, performance management and team productivity management) collectively make a considerable contribution to the forecast of loan recovery.

### **Regression coefficient table**

The multiple linear regression model was found,

$$Y (LR) = 6.610 - 0.297CPM_1 - 0.252CEM_2 + 0.179CRM_3 + 0.597CPM2_4 \\ + 0.310PM_5 + 0.041TPM_6$$

Where,

Y (LR) = Loan recovery as a dependent variable

$\alpha$  = Intercept

$\beta_0$  = Coefficient of the intercept

CPM<sub>1</sub> = Credit product management as independent variables

CEM<sub>2</sub> = Credit evaluation management as independent variables

CRM<sub>3</sub> = Credit risk management as independent variables

CPM2<sub>4</sub> = Collection process management as independent variables

PM<sub>5</sub> = Performance management as independent variables

TPM<sub>6</sub> = Team productivity management as independent variables

The loan recovery (Y) is the dependent variable in the regression model represented by the given equation, while the Credit product management (X<sub>1</sub>), Credit evaluation management (X<sub>2</sub>), Credit risk management (X<sub>3</sub>), Collection process management (X<sub>4</sub>), Performance

management (X<sub>5</sub>), and Team productivity management (X<sub>6</sub>) are the independent variables. Understanding the relationship between these factors and loan recovery is possible thanks to the coefficient linked to them.

**Table 13**

*Regression coefficient table of loan default*

Model	Unstandardized		Standardized		t	Sig.
	Coefficients		Coefficients			
	B	Std. Error	Beta			
1 (Constant)	6.610	6.394			1.034	0.314
CPM	-0.297	0.272	-0.194		-1.091	0.288
CEM	-0.252	0.324	-0.147		-0.775	0.447
CRM	0.179	0.175	0.176		1.020	0.320
CPM2	0.597	0.185	0.551		3.225	0.004
PM	0.310	0.393	0.241		0.788	0.440
TPM	0.041	0.407	0.032		0.101	0.920

a. Dependent Variable: LR

*(Sources: Data output from SPSS 27.0 analysis)*

Table 13, shows the multiple linear regression analysis. The estimated value of loan recovery is represented by the intercept term i.e. 6.610 when all independent variables are set to zero. However, independent variables' beta values are important.

The regression coefficient of credit product management (CPM) is -0.297 and the significance value is 0.288, indicating a negative but not statistically significant impact on loan recovery. The coefficient of credit evaluation management (CEM) is -0.252 and the significance value is 0.447, indicating a negative and insignificant impact on loan recovery. The coefficient of credit risk management (CRM) is positive 0.179 and the significance value is 0.320, which means that loan recovery is positively but not significantly influenced by credit risk management (CRM). This indicates that as credit risk management (CRM) increases, the likelihood of loan recovery also increases, albeit slightly. However, the effect size is small (0.320), suggesting a weak relationship. The coefficient of collection process management (CPM2) is positive 0.597 and the significance value is 0.004, which means that loan recovery is positively and significantly influenced by collection process management (CPM2). The coefficient of performance management (PM) is positive 0.310

and the significance value is 0.440, which means that loan recovery is positively but not significantly influenced by performance management (PM). The coefficient of team productivity management (TPM) is positive 0.041 and the significance value is 0.920, which means that loan recovery is positively but not significantly influenced by team productivity management (TPM).

## **4.2 Discussion**

The findings of this study that there are 90 females and 72 males accounting for 55.6% and 44.4% respectively of the total sample (borrowers). This indicates that the proportion of female respondents is higher than males. Armendariz and Morduch (2005) corroborate the study's findings, indicating that women participate in financial institutions at a higher rate than men. As a result, women benefit from increased understanding and increased control over their resources. This outcome supports Tin's (2019) findings that the majority of responders are female. Of the 105 bank officers who participated in this study, 47 were female and 58 were male, making up 44.8 and 55.5 percent of the sample, respectively (bank employees). This suggests that there are more male respondents than female responders. This outcome is in line with Tin's (2019) research, which found that men make up a larger number of responders than women.

There were 50 respondents from the age group 18-25, constituting 30.9% of the total population. Similarly, the largest proportion of borrowers fell into the age group 26-35, with 79 individuals, accounting for 48.8% of the total sample. There were 19 respondents in the age group 36-45, representing 11.7% of the total sample. Other age groups have a lower proportion of the respondents. These findings are consistent with the findings of Autio et al. (2009) that young adults use small loans more than the other age groups. This finding is not supported by Mokhtar (2012) that older borrowers would be more responsible and disciplined in repaying their loans than young borrowers.

Among the surveyed population, most of the borrowers who take loans have completed their graduation and diploma/high school. This result differs from Tin's (2019) conclusion that the majority of borrowers had completed high school. Of those surveyed, 62 individuals—or 59.0 percent of the sample as a whole—had completed their education. 41 respondents, or 39% of the sample as a whole, answered in favor of postgraduates and above. The majority of bank officers fulfilled their graduation requirements. A lower level

of education has been completed by other individuals. Tin (2019), which found that a larger percentage of respondents had reached their graduation level, supports this outcome.

There were 67 unmarried respondents, accounting for 41.4% of the total sample. 95 borrowers were married, representing 58.6% of the sample. The proportion of married respondents was higher than unmarried. The findings of this study are similar to the findings of Yarumba (2010) and Tin (2019) that married have additional responsibilities for their families which force them to utilize the available resources to earn income to improve the household's livelihood.

Two respondents are from other categories i.e. businessmen, representing 1.2% of the total sample. The proportion of employed respondents was 99, accounting for 61.1% of the sample, which is the largest proportion among the employment statuses. The proportion of self-employed had 26 respondents, representing 16% of the sample. There were 25 students, accounting for 15.4% of the sample. Ten respondents are unemployed, accounting for 6.2% of the sample. this result is similar to the findings of Tin (2019) that most of the borrowers were employed especially in government offices or companies or garment or taxi drivers who hire taxis from the owner. The highest proportion of respondents were credit officers 38, accounting for 36.2% of the sample. The proportion of credit analysts was 20, representing 19% of the sample. The proportion of credit monitoring managers and the teller and operation managers had 18 respondents, accounting for 17.1% of the sample. The proportion of branch managers was 11, representing 10.5% of the sample. The credit officer had the largest number of respondents among other officers. This result is supported by Tin (2019) that the highest number of respondents were credit officers.

The monthly household income of the borrowers. Among the surveyed population, 50 respondents (borrowers) income between 50,001 – 100,000, accounting for 30.9% of the sample. 63 respondents had a below 50,000 monthly income, accounting for 38.9% of the sample. The proportion of monthly household income levels between 200,001 – 400,000 was 14, representing 8.6% of the sample. The proportion of borrower's monthly household monthly income between 100,001 to 200,000 was 24, accounting for 14.8% of the borrowers. The proportion of monthly household income of borrowers above 400,000 was 11, accounting for 6.8% of the sample. The majority of borrowers' monthly household income was below 50,000. The findings of Suraya et al. (2012) observed that the lower income cycle in business creates loan repayment problems for the borrowers.

The proportion of the respondents who had 1 year and below experience in the banking sector was 3, accounting for 2.9% of the sample. Among the surveyed population, 9 respondents reported having 1 to 3 years of experience in the banking sector, constituting 8.6% of the total sample. The proportion of bank officers with experience in the banking sector between 3 to 5 years, with 20 individuals, accounting for 19% of the sample. The majority of the respondents were in the banking sector between 5 to 7 years, with 45 individuals, accounting for 42.9% of the total sample. and 28 respondents stated they have above 7 years of experience in the banking sector, accounting for 26.7% of the total sample.

From the regression analysis, the borrower's characteristics have a negative but not statistically significant impact on loan default. This study's result is consistent with that of Nasrin and Sarker (2014) in that the two variables—income level and business type—are statistically significant, whereas the coefficients of age and education are not. The close relationship between family size and recovery performance suggests that having fewer family members, a higher income group, and loan disbursement in the business sector. This study uses a model-based methodology to determine how well various industries are recovering. In order to better recover from these industries, it can therefore be beneficial for bankers and policymakers in banking and financial institutions to choose the best borrowers when granting loans. This outcome supports the findings of Muttappa and Baligatti (2021), who found that there has been a default on loan repayment and that the main impact on banks is a reduction in the loan amount. They also recommended that commercial banks implement risk control measures to help prevent loan default. Before making a loan, they should also carefully review the project statement that the borrower or customer has filed. This will enable them to determine whether the projects are realistic given the borrower's historical performance and to determine a realistic payback schedule. The results of this study differ significantly from those of Umar (2022), who found that business age, gender, and size of family are important factors in loan default. The size and location of the firm, the borrowers' marital status, and their age were found to be unimportant in predicting loan default among microfinance MSME borrowers. The results of this study differ from those of Mamboya et al. (2017), who showed that while firm type and business management education were significant factors, borrower age was not. The bulk of respondents and key sources stated that financial institutions used capacity building, frequent communication, rejecting borrowers for the next loan opportunity, and retaining defaulters' property as strategies to lessen default concerns.

The proximity bank's characteristics have a negative and significant impact on loan default. The results of this study differ from those of Nwaubani (2021), who found a substantial correlation between loan default and Deposit Money Banks' risk management practices. Because of these beneficial relationships, businesses will be more profitable if client loans are managed properly. The findings of Adegbola et al. (2023) that credit management has no significant effect on loan default, credit monitoring and credit appraisal having negative but non-significant effects on default, and credit collection policy having positive and significant effects on loans, are not supported by the results of this study.

The loan default is positively but not significantly influenced by the loan characteristics. This suggests that there is a minor increase in the chance of loan default in tandem with an increase in loan characteristics. The extremely little effect size, however, points to a shaky link. Because large loans are typically riskier, this conclusion differs from that of Zambaldi et al. (2009), who found that the loan size effect is negative. However, collateral greatly mitigates the effect of loan size. While loan use was shown to be significant, the study's results differ from those of Mamboya et al. (2017) in that the interest rate charged by financial institutions was important. According to the majority of respondents and key informants, financial institutions have reduced default difficulties by keeping onto defaulters' property, turning away borrowers for further loan opportunities, communicating often, and developing capacity. The researchers discovered loan repayment defaults and discovered that the primary impact these have on banks is a minimum loan amount. In order to prevent loan default, commercial banks should use certain risk control measures. A loan should only be approved after a thorough review of the project statement provided by the borrower or customer. This will enable them to determine whether the projects are realistic given the client's historical performance and to determine a reasonable payback schedule.

The credit product management (CPM) has a negative but not statistically significant impact on loan recovery. Yudisthira and Barthos (2021) state that the duration of a credit loan and the term of repayment should be such that the loan's initial (agio) value is greater than its eventual return value. This outcome is in line with the conclusions of Kowa et al. (2023), who found that the loan recovery was negatively and negligibly impacted by the loan approval policies.

The credit evaluation management (CEM) has a negative and insignificant impact on loan recovery. The outcome of this investigation is in line with Muthoni et al. (2020) findings, which showed that client appraisal had no discernible impact on commercial banks' loan

performance. This suggested that enhancing customer evaluation in the presence of lending and debt collection policies would not materially enhance loan performance. These results contrast with those of Aliija and Muhangi (2017), who found that client appraisal improved MFI loan performance. These results also contradict those of Ahmed and Malik (2015), who discovered that credit conditions and client appraisal had a large positive impact on loan performance, as well as Makori and Sile (2017), who found that client appraisal had a significant impact on loan performance. On the other hand, the performance of the loans was positively but marginally impacted by the collection policy and credit risks. Furthermore, Muturi (2016) discovered that the information provided on loan payback schedules, creditworthiness, and overhead costs was insufficient under the current client appraisal procedures. Orua (2009) discovered that debts had varying effects on loan performances, however Sindani (2012) revealed that a thorough client appraisal had a significant impact on loan repayment. This outcome is consistent with Kowa et al. (2023) findings, which showed that loan recovery was negatively impacted by loan monitoring rules although not statistically significantly. The findings are also in line with Maina and Njeru (2023) that credit monitoring had a positive and significant impact on the performance of loan recovery.

The loan recovery is positively but not significantly influenced by credit risk management (CRM). This indicates that as credit risk management (CRM) increases, the likelihood of loan recovery also increases, albeit slightly. However, the effect size is small, suggesting a weak relationship. This outcome bears some resemblance to Lin's (2019) research, which found that loan recovery was positively and significantly impacted by credit policy and loan appraisal. This outcome is in line with Kowa et al. (2023)'s findings, which showed that loan recovery was significantly and favorably impacted by loan appraisal policies. The results of this investigation support those of Mwangi and Muturi (2016), who found that loan repayment performance was impacted by credit risk management. According to the findings, commercial banks who are successful in putting their organizational credit policies into practice would see an improvement in their borrowers' loan payback. Enhancements in commercial bank debt collection coupled with rigorous borrower credit scoring aid in narrowing down the pool of potential borrowers to those who are creditworthy, which in turn improves loan repayment performance. The study concluded that credit regulations, the debt collection procedure, the risk assessment process, and credit scoring significantly improved the performance of loan payback. Usendok et al. (2023)

concluded that Credit appraisal, credit risk control and collection policy were found to be very important in influencing loan recovery. The findings are not similar to the findings of Maina and Njeru (2023) that the credit appraisal had a positive and significant impact on the loan recovery performance.

The loan recovery is positively and significantly influenced by collection process management (CPM2). The result of this study is consistent with the findings of Muthoni et al. (2020) that debt collection policy affected the loan performance of commercial banks significantly. This suggested that loan performance would improve if debt collection practices were improved. The results corroborate those of Muturi (2016), who found that loan performance was positively impacted by debt policy, loan payback, and creditworthiness. The substantial impact of debt collection procedures on loan performance was also found by Oretha (2012), who investigated CRM practices and the financial performance of Liberian banks. The results are also consistent with the findings of Otieno and Nyagol (2016), who show that commercial banks have adopted strict collection policies in an effort to shorten the collection period in order to lower the amount of non-performing loans. Additionally, Owusu (2008) demonstrated that credit management techniques did not properly utilize the debt collection policy. The findings are also in line with Maina and Njeru (2023) that the credit recovery systems had a positive and statistically significant impact on the performance of loan recovery.

The loan recovery is positively but not significantly influenced by performance management (PM). As per Yudisthira and Barthos (2021), a bank's efficacy is contingent upon the credit loan it has, the quality of which is dictated by the approval process. The legal component is crucial to the entire process, from oversight to ultimate repayment. Every step of the credit loan process, from the agreement to the last repayment, is governed by law. The conclusions of Muthoni et al. (2020), who found that lending policies had a significant impact on commercial banks' loan performance, are not supported by the results of this study. It was implied by this that better lending practices would lead to better loan outcomes. These results corroborate those of Kibor (2015), who found that lending policies had a substantial impact on the performance of the loans. Furthermore, the results concur with Ayodele, Thomas, Raphael, and Ajayi (2014), who found that reducing the number of loan defaults requires an effective credit policy. Owusu (2008) discovered, however, that lending policies had little impact on non-performing loans. According to Gennaioli, Andrei, and Robert (2012), efficiency in loan amounts should consider the borrowers' ability to

repay and perform. Dawkin (2010) discovered that the firms' collection attempts were successful. The finding of this study is partially similar to the findings of Maina and Njeru (2023) that the credit procedures had a positive and significant impact on the performance of loan recovery.

The loan recovery is positively but not significantly influenced by team productivity management (TPM). The primary drivers of proximity banks' improved loan payback collection performance are the internal teams' productivity and motivation. The banks should establish their own programs and offer financial or in-kind support, based on the type of arrangement that works best for the situation.

## CHAPTER V

### SUMMARY AND CONCLUSION

This chapter is organized into these sections. The first section is a summary of all the study's information. The study's result is provided in the second portion, and its implications are covered in the final section.

#### 5.1 Summary

The primary causes of these banks' difficulties with good outcomes and seamless operations include fierce rivalry, unstable political environments, and a lack of oversight. Loan disbursement and recovery practices are therefore presenting these institutions with serious difficulties. In addition, loans are being misused by borrowers for reasons other than those for which they were intended, and the loan application process is convoluted and lengthy, with terms and circumstances that are foreign to them.

To deal with these financial issues and solve the financial problems, this study aimed to examine the determinants of loan defaults and loan recovery performance. While analyzing the loan disbursement and recovery performance of commercial banks in Nepal some brief journals, articles and thesis reviews were performed. The descriptive and causal research designs were employed to find out the determinants of loan defaults and loan recovery. The data for this study were collected from one hundred sixty-two borrowers and one hundred-five bank officers. The primary data was used in this study collected from borrowers and officers. The purposive and simple random sampling techniques were adopted in this study. The collected information and numerical data have been analyzed by using SPSS (27.0 version) software and frequency distribution, mean, standard deviation, correlation, ANOVA and regression analysis were the statistical tools used in this study. The tables were used to show the results of this study.

From the regression analysis, The independent variables such as borrower's characteristics, proximity bank's characteristics and loan characteristics variance account for 0.069 i.e. 6.99% on the dependent variable (loan default). The remaining percentage is due to other factors. The independent variables such as credit product management, credit evaluation management, credit risk management, collection process management, performance management and team productivity management variance account for 0.468 i.e. 46.8% on the dependent variable (loan recovery). The remaining percentage is due to other factors. A

higher R square value indicates that a sizable percentage of the loan recovery variability can be explained by predictors, as per the model summary table.

The borrower's characteristics have a negative but not statistically significant impact on loan default. The proximity bank's characteristics have a negative and significant impact on loan default. The loan default is positively but not significantly influenced by the loan characteristics. This indicates that as loan characteristics increase, the likelihood of loan default also increases, albeit slightly. The credit product management (CPM) has a negative but not statistically significant impact on loan recovery. The credit evaluation management (CEM) has a negative and insignificant impact on loan recovery. The loan recovery is positively but not significantly influenced by credit risk management (CRM). This indicates that as credit risk management (CRM) increases, the likelihood of loan recovery also increases. The loan recovery is positively and significantly influenced by collection process management (CPM2). The loan recovery is positively but not significantly influenced by performance management (PM). The loan recovery is positively but not significantly influenced by team productivity management (TPM).

## **5.2 Conclusion**

This study examined the loan disbursement and recovery system of commercial banks in Nepal. The researcher analyzed the relationship and impact of predictors and dependent variables.

The percentage of female respondents is larger than that of male respondents, indicating that women participate in financial institutions at a higher rate than men. As a result, women benefit from increased understanding and more control over their resources. There was a greater percentage of married respondents than single ones. Married people must use all of the resources at their disposal to generate revenue in order to better the standard of living for their family because they bear additional responsibilities. For borrowers, having a greater income level may make loan repayment easier. However, borrowers may experience difficulties repaying their loans as a result of the lower revenue cycle.

The traits of the borrower influence loan default negatively but not statistically significantly. The close relationship between family size and recovery performance suggests that having fewer family members, a higher income group, and loan disbursement in the business sector. This study uses a model-based methodology to determine how well various industries are recovering. In order to better recover from these industries, it can

therefore be beneficial for bankers and policymakers in banking and financial institutions to choose the best borrowers when granting loans. Before making a loan, they should also carefully review the project statement that the borrower or customer has filed. This will enable them to determine whether the projects are realistic given the borrower's historical performance and to determine a realistic payback schedule. The features of the proximity bank have a negative and noteworthy effect on loan default. The loan features have a beneficial but not statistically significant impact on the loan default. The researchers discover that there has been loan repayment default and that the primary impact these have on banks is a minimum loan amount. To guard against loan default, commercial banks ought to implement certain risk control procedures. Before making a loan, they should also carefully review the project statement that the borrower or customer has filed. This will enable them to determine whether the projects are realistic given the borrower's historical performance and to determine a realistic payback schedule.

The credit product management (CPM) has a negative but not statistically significant impact on loan recovery. This lack of significance implies that there is not enough data to conclude that CPM has a direct impact on loan recovery results. The absence of statistical significance suggests that any association that is found might just be the result of chance rather than a real effect. As such, we are unable to state with confidence that CPM influences loan recovery rates. To elucidate this association, bigger sample sizes or different approaches should be considered in subsequent research. Based on the existing findings, no immediate changes to CPM methods are necessary. The management of credit evaluation (CEM) has a negligible and adverse effect on loan recovery. This suggested that enhancing customer evaluation in the presence of lending and debt collection policies would not materially enhance loan performance.

The loan recovery is positively but not significantly influenced by credit risk management (CRM). According to the findings, commercial banks who are successful in putting their organizational credit policies into practice would see an improvement in their borrowers' loan payback. Enhancements in commercial bank debt collection coupled with rigorous borrower credit scoring aid in narrowing down the pool of potential borrowers to those who are creditworthy, which in turn improves loan repayment performance.

The loan recovery is positively and significantly influenced by collection process management (CPM2). The goal of collection process management is to ensure that repayments are collected on schedule and without default. Performance management has a

slight but positive impact on loan recovery (PM). This suggested that an enhancement in lending guidelines wouldn't translate into an improvement in loan outcomes. A bank's performance will correspond with the type of credit loan it has, which is decided by the procedure by which it is approved. The legal component is crucial to the entire process, from oversight to ultimate repayment. Every step of the credit loan process, from the agreement to the last repayment, is governed by law.

The loan recovery is positively but not significantly influenced by team productivity management (TPM). The primary drivers of proximity banks' improved loan payback collection performance are the internal teams' productivity and motivation. The banks should establish their own programs and offer financial or in-kind support, based on the type of arrangement that works best for the situation.

### **5.3 Implications**

As per the result, the following points are recommended to reduce loan default and enhance loan recovery strategies.

- In order to satisfy customers' demands for new or existing products, the loan amount or size should be increased to the proper amount for each individual customer based on their financial needs, creditworthiness, ability, and capacity to repay. Customers should have enough flexibility in the loan term, payback cycle, and period to avoid having an influence on the loan default.
- After a payment is missed, credit officers must work harder to follow up promptly. In order to stop a complete default, they must emphasize the importance of following up right away following a delinquency. Reducing the interest rates on the loan and/or extending the payment date will be an alternative to letting loss if the loan is delinquent or defaulted. Recovering debt can also be accomplished by taking the payment out of the client's paycheck.
- To ensure that the policies are being followed, the operation manager should speak with the credit officers or frontline staff every day. The manager also needs to act fast to address any issues that the credit officers may be having. The bank should thoroughly examine employee background checks before hiring new employees in order to reduce the number of staff fraud cases since new hires must be dependable and devoted to the company.

- Commercial banks should keep an eye on their outstanding loans to quickly identify any that are not being repaid by the borrower on time.
- To prevent losses, commercial banks should implement some of the risk control measures. A written agreement known as a covenant, which requires the borrower to provide certain financial statements at certain intervals throughout the loan's term, is an example of this.
- Commercial banks should carefully review the customer's financial statement project before making a loan (cash budget, income statement). This will assist them in determining a realistic repayment schedule and whether the projects are feasible given the customer's historical performance.

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## APPENDICES

### Appendix I

#### Frequency table of demographic characteristics of borrowers

		Frequency	Percent
Valid	<b>Gender</b>		
	Female	90	55.6
	Male	72	44.4
	<b>Age</b>		
	18-25	50	30.9
	26-35	79	48.8
	36-45	19	11.7
	46-55	13	8.0
	Above 55	1	0.6
	<b>Educational background</b>		
	Diploma/High school	45	27.8
	Graduate	60	37.0
	Post Graduate and above	34	21.0
	Primary school	2	1.2
	Secondary school	21	13.0
	<b>Marital status</b>		
	No	67	41.4
	Yes	95	58.6
	<b>Employment status</b>		
	Other (Businessman)	2	1.2
	Employed	99	61.1
	Self-employed	26	16.0
	Student	25	15.4
	Unemployed	10	6.2
	<b>Monthly household income</b>		
	Rs. 50,001 - 100,000	50	30.9
	Below Rs. 50,000	63	38.9
	Rs. 200,001 - 400,000	14	8.6

Rs. 100,001 - 200,000	24	14.8
Above Rs. 400,000	11	6.8
<b>Total</b>	<b>162</b>	<b>100.0</b>

(Source: Survey analysis, 2024)

## Appendix II

### Frequency table of demographic characteristics of Bank Officer

Valid		Frequency	Percent
	<b>Gender</b>		
	Female	47	44.8
	Male	58	55.2
	<b>Educational Background</b>		
	Diploma/High school	2	1.9
	Graduate	62	59.0
	Post Graduate and above	41	39.0
	<b>Designation</b>		
	Credit Officer	38	36.2
	Credit Analyst	20	19.0
	Credit Monitoring Manager	18	17.1
	Branch Manager	11	10.5
	Teller and Operation Manager	18	17.1
	<b>Experience</b>		
	1 year and below	3	2.9
	1-3 years	9	8.6
	3-5 years	20	19.0
	5-7 years	45	42.9
	Above 7 years	28	26.7
	<b>Total</b>	<b>105</b>	<b>100.0</b>

(Source: Survey analysis, 2024)

**Appendix III**  
**Descriptive Statistics**

	N	Mean	Std. Deviation
Borrower characteristics	162	16.8086	3.43807
Proximity banks characteristics	162	31.6420	4.46465
Loan characteristics	162	20.1481	3.02623
Loan default	162	4.7901	2.02908
Valid N (listwise)	162		

*(Source: Survey analysis, 2024)*

**Appendix IV**  
**Descriptive Statistics**

	N	Mean	Std. Deviation
CPM	105	14.9714	1.45746
CEM	105	11.3143	1.27335
CRM	104	18.0192	2.55039
CPM2	30	19.6333	2.41380
PM	103	21.0194	1.82564
TPM	101	15.2970	1.38957
LR	102	22.3922	2.75450
Valid N (listwise)	27		

*(Source: Survey analysis, 2024)*

**Appendix V**  
**Correlation Analysis**

		Borrower characteristics	Proximity banks characteristics	Loan characteristics	Loan default
Borrower characteristics	Pearson	1			
	Correlation				
Proximity banks characteristics	Pearson	.188*	1		
	Correlation				
Loan characteristics	Pearson	-.205**	-.219**	1	
	Correlation				
Loan default	Pearson	-0.114	-.250**	0.107	1
	Correlation				
N		162	162	162	162

\*. Correlation is significant at the 0.05 level (2-tailed).

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

(Source: Survey analysis, 2024)

**Appendix VI**  
**Correlation Analysis**

		CPM	CEM	CRM	CPM2	PM	TPM	LR
CPM	Pearson	1						
	Correlation							
CEM	Pearson	0.088	1					
	Correlation							
CRM	Pearson	0.128	0.031	1				
	Correlation							
CPM2	Pearson	-0.012	0.191	0.107	1			
	Correlation							
PM	Pearson	.369**	.299**	-0.027	0.166	1		
	Correlation							
TPM	Pearson	.353**	.367**	-0.015	0.214	.688**	1	
	Correlation							

LR	Pearson	0.082	0.092	.415**	.611**	.255*	0.171	1
	Correlation							
	N	102	102	101	30	101	99	102

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

\* . Correlation is significant at the 0.05 level (2-tailed).

(Source: Survey analysis, 2024)

### Appendix VII Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.263 <sup>a</sup>	0.069	0.052	1.97611

a. Predictors: (Constant), Loan characteristics, Borrowers characteristics, Proximity banks characteristics

(Source: Survey analysis, 2024)

### Appendix VIII ANOVA Analysis

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	45.871	3	15.290	3.916	.010 <sup>b</sup>
	Residual	616.993	158	3.905		
	Total	662.864	161			

a. Dependent Variable: Loan default

b. Predictors: (Constant), Loan characteristics, Borrowers characteristics, Proximity banks characteristics

(Source: Survey analysis, 2024)

**Appendix IX**  
**Regression Coefficient Table**

Model	Unstandardized		Standardized		
	Coefficients		Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	8.101	1.897		4.270	0.000
Borrower characteristics	-0.037	0.047	-0.062	-0.785	0.434
Proximity banks characteristics	-0.104	0.036	-0.229	-2.878	0.005
Loan characteristics	0.030	0.054	0.044	0.556	0.579

a. Dependent Variable: Loan default

(Source: Survey analysis, 2024)

**Appendix X**  
**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.684 <sup>a</sup>	0.468	0.309	2.10232

a. Predictors: (Constant), TPM, CRM, CPM2, CPM, CEM, PM

(Source: Survey analysis, 2024)

**Appendix XI**  
**ANOVA Analysis**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	77.901	6	12.984	2.938	.032 <sup>b</sup>
Residual	88.395	20	4.420		
Total	166.296	26			

a. Dependent Variable: LR

b. Predictors: (Constant), TPM, CRM, CPM2, CPM, CEM, PM

(Source: Survey analysis, 2024)

**Appendix XII**  
**Regression Coefficient Table**

Model	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
1 (Constant)	6.610	6.394		1.034	0.314
CPM	-0.297	0.272	-0.194	-1.091	0.288
CEM	-0.252	0.324	-0.147	-0.775	0.447
CRM	0.179	0.175	0.176	1.020	0.320
CPM2	0.597	0.185	0.551	3.225	0.004
PM	0.310	0.393	0.241	0.788	0.440
TPM	0.041	0.407	0.032	0.101	0.920

a. Dependent Variable: LR

(Source: Survey analysis, 2024)

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Abstracts The main objective of this study is to discover the problem faced by commercial banks while collecting the disbursed loan. The descriptive and causal research design was employed in this study. This study used primary data from one hundred sixty-two borrowers and one hundred-five bank officers currently working at Nepal Bank Limited. The collected data has been analyzed by using some statistical tools such as frequency, mean, standard deviation, correlation analysis, ANOVA and regression analysis. The data is collected through a structured questionnaire method using the Likert Scale. Many determinants of loan default and loan recovery, in this study borrower characteristics, proximity of bank characteristics and loan characteristics are the determinants of loan default and credit product management, credit evaluation management, credit risk management, collection procedure management, performance management and team productivity are the independent variables. The collected information and the numerical data have been analyzed by using the SPSS 27.0 version to show the data and results clearly. The regression analysis shows that the independent variables such as borrower's characteristics, proximity bank's characteristics and loan characteristics variance account for 0.069 i.e. 6.99% on the dependent variable (loan default). The remaining percentage is due to other factors. The borrower's characteristics and proximity bank's characteristics have a negative but not statistically significant impact on loan default. The loan default is positively but not significantly influenced by the loan characteristics. Credit product management and credit evaluation management have a negative but not statistically significant impact on loan recovery. The loan recovery is positively but not significantly influenced by credit risk management (CRM). The loan recovery is positively and significantly influenced by collection process management (CPM2). The loan recovery is positively but not significantly influenced by performance management (PM). The loan recovery is positively but not significantly influenced by team productivity management (TPM). In order to satisfy customers' demands for new or existing products, the loan amount or size should be increased to the proper amount for each individual