

A Study on Credit Management and Loan Performance Analysis

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ABSTRACT

This study focused on credit management and loan performance analysis of an urban co-operative credit society. The study examined the credit management audit which includes credit appraisal, borrower's repayment capacity assessment, loan sanction, loan follow up and recovery mechanism. The study further evaluated the relationship between credit management and loan performance using descriptive and diagnostic analysis. The study relied on both qualitative and quantitative data. Questionnaires were administered to members and borrowers from whom the primary data were collected. The secondary data were obtained from the annual reports, audit reports, financial statements, loan registers, and other relevant published materials. The study employed percentage analysis, weighted mean, correlation, regression analysis, and Chi-Square test to arrive at its conclusions. The study found that effective credit appraisal, borrower's repayment assessment, and loan follow up and recovery measures have a significant relationship with loan performance. The study recommended that there is a need to develop effective strategies for loan sanction, follow up and recovery, enhance awareness on repayment, and strengthening monitoring and evaluation to ensure that loans are maintained at satisfactory levels and to increase repayment rate. The study concluded that effective credit management has a positive relationship with loan performance, repayment rate and financial sustainability of the co-operative credit society.

Key Words - Loan Sanction, Credit Management Loan Performance, Satisfaction

INTRODUCTION

Credit management is very important and integral part of the functions of any financial institution or co-operative credit societies. This is because loans and advances are not only sources of income to these institutions but also constitute credit risk. Credit management encompasses credit appraisal, document verification, assessment of repayment capacity of a borrower, sanction of loan, follow up and recovery of overdue. Sound credit management practices facilitate the reduction of default rates, liquidity, and loan portfolio quality.

Co-operative credit societies mobilize savings and give various forms of credits such as personal, consumer, business and salary loans to their members. Hence there is a need for proper appraisal and follow up to ensure that credit is availed to the entitled members and repayment is timely done.

A Study on Credit Management and Loan Performance Analysis will be carried out to establish the relationship between credit management and loan performance. The study will focus on credit appraisal, capacity assessment, sanction of loan, follow up and recovery of overdue. The study will use both primary and secondary data. The statistical analysis will involve percentage calculation, weighted mean, correlation, regression analysis, and Chi-Square test. The study is expected to reveal some aspects that when put into consideration will help improve on credit management and loan performance.

REVIEW OF LITERATURE

Bouncken, R. B., Czakon, W., & Schmitt, F. (2026). This study states that for qualitative research to be undertaken effectively in business and management studies, there is need for appropriate case and informant selection. This study emphasizes the significance of using purposeful sampling and saturation in order to enhance research quality. Cases and informants may also give the same or varied information. **Rahman, M. A., Zamil, M. H., & Hoque, A.**

B. (2025). The study focuses on the various social and psychological aspects affecting the defaulting tendency of the borrower. The study explains that the characteristics like impulsive, overconfidence, lack of financial literacy, unstable income, and uncertain job security of the borrowers make them more vulnerable to default. The study concludes that behavioral analysis in loan evaluation and financial education could minimize loan defaults.

Bhandary, R., Shenoy, S. S., Shetty, A., & Shetty, A. D. (2024). This review looked at studies on education loan repayment from 1990 to 2022. It noted that income level, financial literacy, financial education, and repayment burden were the most significant determinants of loan repayment. This research concluded that an improvement in repayment methods and financial literacy would improve loan repayment outcomes. **Okonta, N., Achoja, F., & Okuma, L. (2023).**

This study was conducted with regard to the likelihood and ability of farmers in Nigeria to repay agricultural loans. The results showed that income from the farm, income from outside the farm, farming experience, and flexible loan repayment terms have considerable impact on loan repayment performance. **Kinyua, J. W., Kiiru, G., & Njoroge, D. (2022).** This study sought to analyze how the client appraisal process and loan monitoring affect the performance of revolving fund repayments in Kenya. From the findings, it was observed that business appraisal and borrower training as well as loan monitoring had a great impact on loan repayments. **Ndichu, J. K. (2021).** This study explored the impact of credit management practices on loan performance among Catholic SHGs in Kenya. It indicated that credit terms, client appraisal, credit collections, and credit risk management positively affect loan performance. From the study, one could observe that efficient credit management practices contribute towards reducing loan defaults and improving loan performance. **Chowdhury, E.**

K. (2020). The paper analyzed various bank-specific and macroeconomic variables which affect the non-performing loans of private commercial banks in Bangladesh. Bank performance metrics and macroeconomic variables have been identified as having a considerable impact on the value of non-performing loans. From the findings of the study, the paper concludes that credit risk management is vital in improving loan performance.

Rahman, M. A. (2019). The research indicated the significance of loans and advances on the improvement of the bank performance. The research showed that proper credit management, proper documentation of the loans, and efforts aimed at reducing NPLs are all beneficial in terms of improving loan recoverability and financial performance of the bank.

OBJECTIVES OF THE STUDY

The study aims to establish the effectiveness of credit management practices and their implication on the performance of a loan. The research will also focus on reviewing the credit appraisal and sanction process, evaluating the capacity of the borrower, and examining the loan monitoring, follow-up, and recovery process. In addition, the study will identify influences on loan repayment and recovery, establish the relationship between credit management and loan performance, examine members' assessment of loan services, and come up with recommendations to improve credit management and overall performance of a loan in general.

RESEARCH DESIGN

The study uses a descriptive and diagnostic survey design to assess credit management practices and evaluation of loan performance. The study will apply a descriptive research design to describe the credit management practices. On the other hand, the diagnostic design will be utilized to examine the factors affecting loan performance. Both primary and secondary data sources will be used in the study. The primary data will be collected from the participants selected for the study. The secondary data will be collected from the existing records including the annual reports, audit reports, loan registers, financial information and other relevant documents. The study will adopt a purposive sampling strategy to select 95 respondents from the target population based on their experience with loan appraisal, sanction, repayment and monitoring processes. The collected data will be analyzed using percentage analysis, weighted mean, correlation analysis, regression analysis and Chi-Square test to establish the relationships between credit management practices and loan performance. Thus, the research design is appropriate for use in this study since it will help in developing an efficient approach for evaluating credit management practices and improving loan performance in the study area.

DATA ANALYSIS AND INTERPRETATION

DEMOGRAPHIC PROFILE OF RESPONDENTS

summarizes the demographic profile of 96 respondents participating in the study

Demographic	High Responses	Frequency (N)	Percentage (%)
Age	25-35	37	38.5
Gender	Male	51	53.1
Type Of Loan Aailed	Housing loan	17	17.7
Membership Duration with the Society	4-6 Years	31	32.3

INTERPRETATION:

The data demonstrates that most respondents were aged 25–35 (38.5%) and male (53.1%). In relation to loans, the largest group of respondents (17.7%) stated that they took out housing loans. As for the duration of membership, 32.3% of respondents had been members of the society for 4–6 years. Thus, the majority of respondents were relatively experienced customers of the society's credit services.

CORRELATION ANALYSIS: QUESTION-1 LOAN SANCTION AND LOAN PERFORMANCE

Ho – There Is No Relationship Between The Loan Sanction And Loan Performance H1 - There Is An Relationship Between The Loan Sanction And Loan Performance

Correlations

		Loan approval was completed on time	I repay my loan installments regularly
Loan approval was completed on time	Pearson Correlation	1	-.256 [*]
	Sig. (2-tailed)		.012
	N	96	96
I repay my loan installments regularly	Pearson Correlation	-.256 [*]	1
	Sig. (2-tailed)	.012	
	N	96	96

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

INTERPRETATION:

The analysis reveals that there is a negative correlation between the timely approval of a loan and regular payments of instalments, with the Pearson correlation coefficient amounting to -0.256. The obtained result is statistically significant at the 5% level ($p = 0.012 < 0.05$), given that there were 96 participants in the study. This suggests that the two variables have a weak negative correlation; that is, timely loan approval leads to a modest reduction in regular instalment repayments.

REGRESSION ANALYSIS: QUESTION 1 LOAN SANCTION AND LOAN PERFORMANCE

HO -There Is No Impact Of Loan Sanction And Loan Performance H1 - There Is An Impact Of Loan Sanction And Loan Performance

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.230 ^a	.053	.043	.551

a. Predictors: (Constant), Loan application process was simple

ANOVA ^a					
Model		Sum of Squares	df	Mean Square	F
1	Regression	1.600	1	1.600	5.267
	Residual	28.556	94	.304	
	Total	30.156	95		

a. Dependent Variable: Loan has improved my financial condition

b. Predictors: (Constant), Loan application process was simple

Coefficients ^a									
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics
		B	Std. Error				Lower Bound	Upper Bound	
1	(Constant)	1.847	.121		15.219	<.001	1.606	2.088	
	Loan application process was simple	.191	.083	.230	2.295	.024	.026	.356	1.000

a. Dependent Variable: Loan has improved my financial condition

INTERPRETATION:

The regression analysis revealed a weak positive correlation between the independent variable of the ease of the loan application process and the dependent variable of the improvement in the financial condition of ($R = 0.230$). The model was found to be significant at ($F = 5.267$, p

$= 0.024 < 0.05$), which implies that ease in the loan application process significantly improves the financial condition of the respondents. As such, the null hypothesis was rejected.

CHI-SQUARE: AGE AND CONSUMER SATISFACTION:

Ho - There Is No Association Between Age And Consumer Satisfaction H1 - There Is An Association Between Age And Consumer Satisfaction

Case Processing Summary

	Valid		Cases Missing		Total	
	N	Percent	N	Percent	N	Percent
Age * I would recommend the society to Others	96	100.0%	0	0.0%	96	100.0%

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	7.990 ^a	9	.535
Likelihood Ratio	8.371	9	.497
Linear-by-Linear Association	.851	1	.356
N of Valid Cases	96		

a. 8 cells (50.0%) have expected count less than 5. The minimum expected count is .19.

INTERPRETATION:

Chi-square test reveals that there is no relationship between the age of the respondent and their willingness to recommend the society ($\chi^2 = 7.990$, $df = 9$, $p = 0.535 > 0.05$). Thus, the null hypothesis is accepted, which suggests that age has no significant impact on the recommendation of the society.

FINDINGS OF THE STUDY

- Most common age category is 2 with 38.5%, followed by 31.3% for age category 1.
- Gender category 1 was more represented with 53.1% over gender category 2 recording 46.9%.
- Loan type 3 was more taken with 17.7%, while loan type 6 was less taken with 3.1%.
- Most members had a moderate membership duration as revealed by 32.6% for category 3.
- There was a negative association between timely approval and regular repayment of loan instalments ($r = -.256$, $p = 0.012$).
- There was a weak positive relationship between fair lending practices and satisfaction with loan services ($r = 0.187$); however, it was not statistically significant ($p = 0.067$).
- It was revealed that a simple application process for a loan had a positive impact on the perception of improvement of financial status ($R^2 = 0.053$, $p = 0.024$).
- Fair lending practices had a weak positive but non-significant correlation with the willingness to recommend the society ($R^2 = 0.024$, $p = 0.134$).
- The Chi-Square test showed that there was no significant association between age and willingness to recommend the society ($\chi^2 = 7.990$, $p = 0.535$).
- Similarly, there was no significant association between the type of loan availed and regular repayment

of loans ($\chi^2 = 23.116$, $r = 0.1870$ _____).

- Some cells in the Chi-Square test had expected frequencies lower than the recommended 5; thus, the caution should be exercised while interpreting the results.

SUGGESTIONS

- The loan sanction process should be streamlined to avoid unnecessary delays in sanctioning loans.
- Credit appraisal should be emphasized in order to evaluate the income, repayment capacity, creditworthiness, and other supporting documents of the applicants before sanctioning a loan.
- Loan follow-up should be stressed so that the account is frequently reviewed and the borrower is constantly reminded of repayments.
- Financial literacy and repayment awareness campaigns should be conducted for the borrowers to educate them about the importance of repayment.
- The loan recovery process needs to be expedited by taking appropriate measures to recover the overdue installments from the defaulting borrowers.
- The customer service policy should be improved by providing the required information to the borrowers about the loan procedures, interest rates, and repayment schedules.
- Feedback should be collected from the members to understand their problems with the loan services and to enhance customer satisfaction.
- The loan products should be reviewed on a regular basis, and new schemes should be introduced to meet the changing demands of the members.
- The loan processing procedures should be digitized to increase processing efficiency and reduce paperwork.
- The evaluation of the borrower's repayment capacity should be emphasized over rapid loan sanctioning since the repayment capacity is dependent on the income and financial discipline of the borrower.
- Risk management practices should be emphasized to minimize the credit risk by identifying the potential problem borrowers.
- Further research should be carried out by taking a larger sample size and dividing the sample size into subcategories for more accurate results, especially for the chi-square test.

CONCLUSION

The study established that proper credit management is key to achieving good loan performance and financial stability. Proper appraisal and assessment of credit proposals together with timely sanction of approved loans, diligent monitoring and effective recovery strategies can significantly improve credit risk management and address the problem of defaulted loans. The study further reveals that enhancing repayment awareness, efficient customer services and loan monitoring can improve recovery performance. It is therefore evident that prudent credit management practice leads to good loan performance, improved recovery strategies, less credit risk and ultimately sustainable co-operative credit institutions.

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