Interest Rates and Loan Repayment in Finance Trust Bank, Katwe Branch. A Cross-sectional Study.

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Abstract

Background

The main objective of the study was to establish the relationship between interest rates and loan repayment by examining the relationship between Central bank rate and loan repayment, loan size and loan repayment, and bargaining power and loan repayment at Finance Trust Bank.

Methodology

The study was carried out at Finance trust bank- Katwe main branch, Rubaga division, Kampala district using data relating to three years from 2019 to 2021 since it was a period when the commercial bank had issues regarding loan defaults. The researcher used a descriptive correlational survey design and adopted a quantitative approach to collect, analyze and interpret data for this study.

The sample size of the study was 56 employees of the Finance trust bank-Katwe branch. The researcher used a simple random sampling technique to select staff that participated in this study and a purposive sampling technique was used to select managers who assisted in identifying other employees to participate in the study.

Results

The correlation between the Central bank rate and loan repayment was -0.120 with a Sig value of 0.117. This shows a negative weak relationship between the Central bank rate and loan repayment at Finance Trust Bank. The correlation between bargaining power and loan repayment was 0.246 with a significant value of 0.753. Therefore, there is a weak positive relationship between bargaining power and loan repayment.

Conclusions

Generally, bargaining power, central bank rate, and loan size have a relationship with loan repayment at Finance Trust Bank and thus influence the repayment of loans.

Recommendations

The commercial bank should reduce the interest rates charged on loans, give customers a chance to participate in the loan repayment schedule, and use credit scores to establish the repayment capacity of customers in order to avoid loan defaults.

Keywords: Interest rates, Loan default, Loan repayment, Submitted: 11th/10/2022 Accepted: 28th/10/2022

1. Background to the Study:

According to Ogundipe (2020), the global financial crisis of 2008 accelerated a fundamental change in the banking industry. World over as it

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affected almost all sectors of global business with the banking sector the most hit due to the credit nature that comes with risks of loan default. Abed (2011), noted that providing credit is the main traditional function of commercial banks, and this aspect of banking remains to date. Thus, commercial banks provide loans to borrowers as an opportunity to generate revenue.

However, borrowers' rate of repaying borrowed funds has been significantly declining over the years hence the high level of delinquency, and loan defaults (Tymoigne, 2018). This has made commercial banks remain financially distressed with huge losses leading to their closure (Karami Mojtaba, 2020). Further, Bongomin (2020), in their study "Microfinance accessibility, social cohesion and survival of women-centered small and medium enterprises in post-war communities in sub-Saharan Africa: Lessons from Northern Uganda" postulated that "Over the years, loan repayment is usually guaranteed by group members collectively and access to future credit or loan is contingent on successful repayment". This means that historically, access to loans is dependent on the trust of members, and the loan repayment is guaranteed, hence, peer monitoring and the prospect for subsequent larger loans depend on one's credit history.

Because the banks are riddled with high overhead costs, the lending interest rates must be high enough to cover operational costs. Lending interest rates in Uganda have averaged 21 percent since the early 1990s. This has been a policy concern since financial sector liberalization was in part intended to enhance competition in the banking sector which would then result in a decline in the lending interest rates (Rubatsimbira, 2019). This has affected the level of loan repayment at finance trust banks as well hence resulting in loan defaults.

Repayment of loans as per the schedule enables lenders to earn interest as a return on assets, reduces financial distress, and improves the working capital of commercial banks hence reducing the cost of loan recovery, improving cash flows, and avoiding involuntary closure of banks (Musinguzi, 2004). According to Agasha Ester (2020), the number of commercial banks in Uganda has continued to increase day by day which has aggravated the competition between the government and the private sector for loanable funds. Due to the increased demand for loans from commercial banks, lenders have taken advantage of charging high-interest rates regardless of the loan size and bank rate (Hasabubwenje, 2020). Finance trust banks not being an exception, the banks have continuously charged competitive rates that are over and above the bank rate (Uganda Bankers Association, 2020). This has resulted in a 12% loan default rate by its customers, non-performing loans, and a number of court cases (Finance Trust Bank report,2020). Further, several cases have been in courts of law "Mugisha v Finance Trust Bank Ltd (Miscellaneous Application-2017/143" 2017), which has increased the cost of recovery, failure to dividends to shareholders, and decline in profits (Mugume, 2019). Such cases, it has prompted the researcher to examine the relationship between interest rates on loan repayment at Finance Trust Bank, Uganda.

2. METHODOLOGY

*2.1. **Research Design***

This research adopted a descriptive, correlational, and cross-sectional survey design. The study also adopted a quantitative approach. The study was cross-sectional in nature since the researcher collected data for the study in a short period of time. It was correlational because it examined the relationship between the study variables. It was also descriptive because it described the findings of the study using tables, graphs, and pie charts.

2.2. Study population

This research used Finance Trust Bank, Katwe branch staff, and customers as the study population. The researcher would like to have information from both customers and the bank to be able to examine the relationship between study variables. According to the Finance trust bank report, Katwe branch (2020), the number of staff at the main branch was 65 employees, thus the population of the study. These work in different departments as follows; credit department 25, tellers 13, Corporate 10, operations department 12, customer care department 5 employees.

2.3. *Setting:*

The researcher requested to collect data from the employees of the Finance Trust Bank Katwe branch (Head office) on 24th march and was granted permission on 28th of the same month. Data were collected in April 2022.

2.4. *Sample size*

The researcher adopted Yamane's formula of 1967:886 in estimating the sample size at 95% level of confidence interval n= $\frac{N}{1+N(e)^2}$ (Adam, 2020).

Where N = Population size

n = Sample size

e = Level Confidence Interval

n= $\frac{N}{1+N(e)^2}$

n= $\frac{65}{1+65(0.05)^2}$

n= $\frac{65}{1.1725}$

n= 56 Participants

These respondents were obtained from the departments using simple random sampling.

2.5. *Sampling method*

The researcher used a simple random sampling technique to select staff to participate in the study. The method used to avoid bias and ensure an equal chance for every staff of the commercial bank.

Sources of data

The researcher obtained data from both primary and secondary sources.

Primary data

Primary data was obtained through self-administered questionnaires that were issued to bank staff and customers and collected after one week.

Secondary data

Secondary data was obtained from annual reports, conference proceedings, meeting minutes, previous studies, textbooks, journals, and financial statements.

Methods of data collection and instruments

Questionnaire method

A questionnaire is a predetermined written set of questions used to obtain data from the respondents by having the responses in writing (Okise, 2019). The researcher used self-administered questionnaires to collect data from the staff of Finance Trust Bank. The questionnaire contained both open-ended and closed-ended questions about loan repayment and interest rates.

Validity

The researcher used the expert judgment method to ensure information collected using the questionnaires are clear and relevant to the study topic. After constructing the questionnaire, the contracted experts in this area of study (research supervisor) will be contacted to ensure that the instruments are clear, relevant, specific, and logically arranged. The expert was requested to rate the validity of each item using the following cords SA, A, D, and SD. After the researcher collected the questionnaires and establish the content validity index of the questionnaires. The researcher determined the content validity index (CVI) by dividing the number of correct questions (n) by the total number of questions(N) and a CVI of 0.9 was obtained hence adopted the questionnaire to collect data.

Reliability

A test-retest method was used to test the reliability of the questionnaire. Therefore the researcher used a pre-test of the questionnaire on a few respondents before administering it to the sample size. He gave the questionnaire to a few respondents (5) to answer and another group of 5 respondents. Responses from the first time (test) were compared to the responses of the second test (retest) and reliability was ensured.

Ethical Considerations

The researcher did seek permission from the faculty and obtained an introductory letter he went to within the field. The researcher further did seek permission from the branch manager of the case study bank and gave him the reasons for his study. The researcher promised participants of the study secrecy of the information provided and that it was only to be used for academic purposes.

2.6. Data organisation and Analysis

Data from the field was carefully classified, edited, completed, and coded to ensure accuracy and reliability using Ms. Excel. After, data were analysed in relation to the objectives of the study using Statistical Package for Social Scientists, and meaningful conclusions were made as well as recommendations

3. FINDINGS, PRESENTATION, AND DISCUSSIONS:

Response Rate

The sample size of the study was 56 employees of the Finance trust bank-Katwe branch. Of the 56 selected SMEs to participate in this study, 6 employees did not fill in the questionnaires and were not available at the time of collection. This reduced the response rate by 10.7% hence bringing the response rate to 89.3%.

According to the findings in table 1, 2 teller workers, 2 corporate staff and 2 credit officers did not fill out the questionnaires. This brings the response to 50 employees at 89.3%.

Background Information

Gender

From table 2, of the 50 respondents of the study, 30 were females and 20 were males. This shows that the majority 60% of the respondents were females and 40% were males. Further, the findings revealed that most employees of Finance Trust Bank were females.

Years working with the bank

From the figure 1, 365 of the respondents have worked with the banks for 0-2 years, 24% for 6-10 years, and 20% for 3-5 and 11 years and above.

According to the findings of the study, 64% of the respondents have at least worked with a commercial bank for over 3 years. Therefore, the majority of the respondents are experienced in banking activities and the operations of the commercial bank.

Loan products issued by Finance Trust Bank

Finance Trust Bank offers business loans, school fees loans, House loans, and Land loans. Further, the findings showed that 60% of the loans offered by the banks are business loans, 20% are school fees loans, 12% are land loans, and 8% for house loans. The business generally provides loans for business purposes.

Interest rates charged by the commercial bank.

The findings in table 4.3 revealed that the average interest rate charged by Finance Trust Bank was 22.05%. Further, the findings showed that the lowest interest charged by the bank is 15% and the highest interest rate was 25%. Therefore, the bank charges between 25% and 15% as the interest rate on loans to its customers.

Interest rate and Loan period

According to findings in table 4, spearman's correlation coefficient between interest rate and loan period was 0.721. This shows that there is a strong positive relationship between interest rates and loans period. Therefore, long loan periods attract higher interest rates.

Loan period and loans offered by commercial banks

According to the findings of figure 3, the longest period for loans is 9 months and the shortest period is 3 months. This shows that generally, Finance Trust Bank offers short-term and medium-term loans. Further, the findings revealed that average, business loans are offered for 6 months, school fees loans for 3 months, housing loans for 9 months, and land loans for 8 months.

Therefore, school fees loans are offered in the short run and do not exceed three months. Housing loans take the longest period.

Loan repayment in Finance Trust Bank

The findings in table 5 showed that an average of 87% of the loans are repaid at Finance Trust Bank. Further, the findings revealed that the minimum loan repayment was at 65% and the highest loan repayment was at 95%. This shows that loan repayment in some months is very low as the rate of default is at 35%.

Correlational findings of the study

In this section, the research findings were presented according to the study objectives set for

Table 1: Showing response rate

Department	**Questionnaires and interviews Issued**		**Questionnaires received**	
	Frequency	Percent (%)	Frequency	Percent (%)
Teller	10	17.9	8	14.3
Customer relations	5	8.9	5	8.9
Operations	8	14.2	8	14.3
Corporate	7	12.5	5	8.9
Credit	26	46.5	24	42.9
Total	**56**	**100**	**50**	**89.3%**

Table 2: Showing gender of the respondents.

		Frequency	Percent
	Male	20	40.0
Valid	**Female**	30	60.0
	Total	**50**	**100.0**

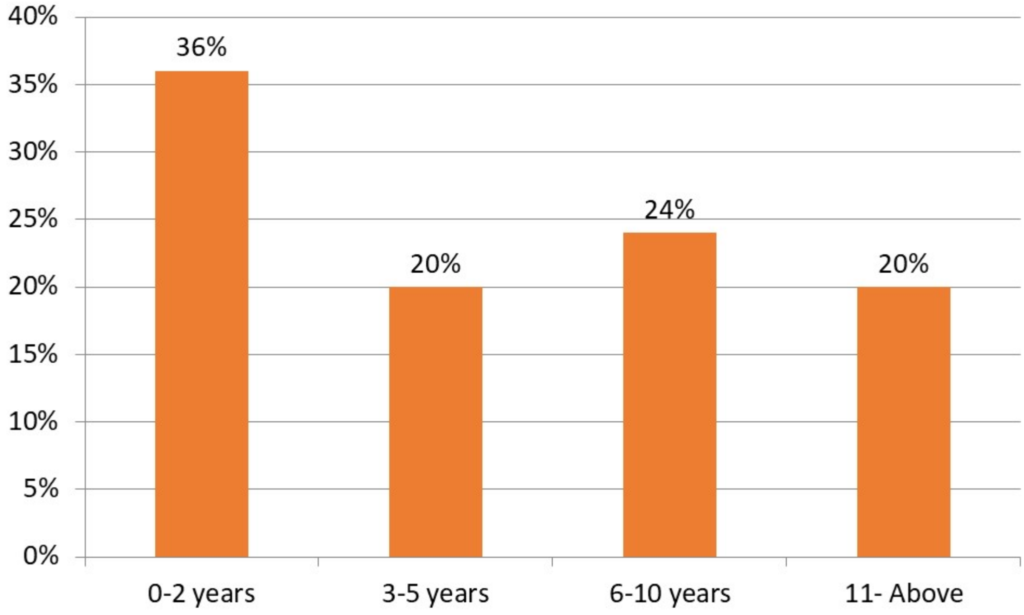

Figure 1: showing years of work with Finance Trust Bank

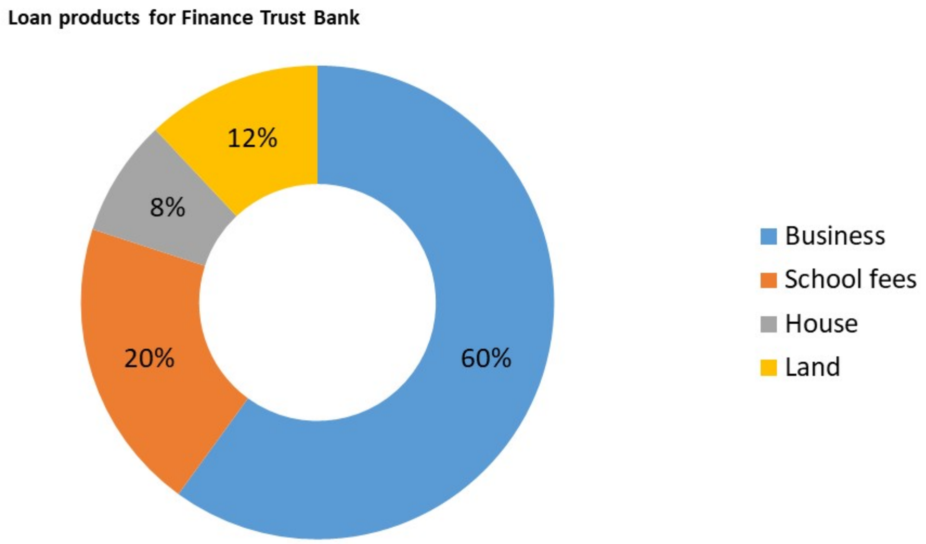

Figure 2: showing loan products offered by Finance Trust bank

Table 3: showing the interest rate charged by the commercial bank.

N	Valid	50
	Missing	0
Mean		22.05
Std. Deviation		0.405
Minimum		15
Maximum		25

Table 4: showing the spearman's correlation between loan period and interest rate

Correlations				
			Interest rate	Loan period
Pearson	Interest rate	Correlation Coefficient	1.000	0.721
		Sig. (2-tailed)	.	.024
		N	130	130
	Loan period	Correlation Coefficient	0.721	1.000
		Sig. (2-tailed)	.024	.
		N	130	130

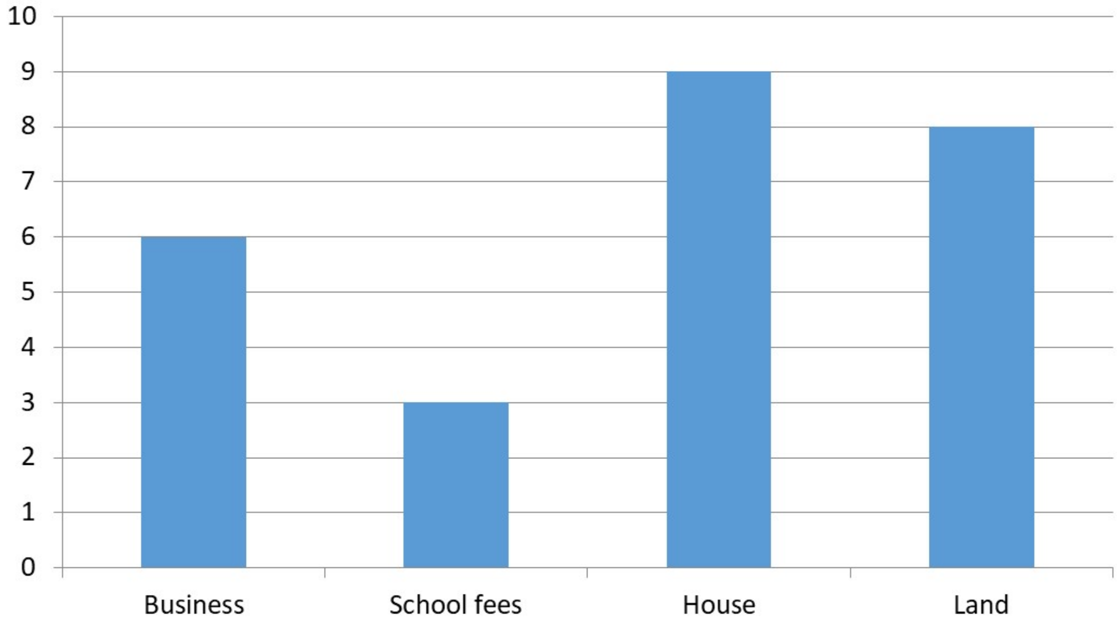

Figure 3: showing loan period and loans offered by Finance Trust Bank

Table 5: showing the average loan repayment at Finance Trust Bank

N	Valid	50
	Missing	0
Mean		87.05
Std. Deviation		0.115
Minimum		65
Maximum		95

the study.

The relationship between Central bank rate and loan repayment at Finance Trust Bank

Descriptive analysis of Central bank Rate and loan repayment at Finance Trust Bank

The researcher used a Likert scale where the answers were on a scale of 1 to 5. Where 1= Strongly Agree, 2= Agree, 3 = Neutral, 4 = Disagree and 5 = Strongly Disagree. The table also includes the summary of the participant's responses based on percentages (%), frequency (F), standard deviation (Std), and mean.

According to the findings in table 6, the average response was 3.6 with a standard deviation of 0.13. Further, 50% of the respondents disagreed with the statement, 30% were neutral and 10% were in agreement. This shows that 60% of the respondents agreed with the statement. Therefore, the Central Bank rate is used by Finance trust bank to determine the interest rate charged on loans.

Also, the findings revealed an average response of 3.16 with a standard deviation of 0.65 on the statement "The central bank rate is used to determine the level of Non-performing loans". Further, 60% of the respondents were neutral, 28% were in disagreement and 12% were in agreement. This shows that majority of the respondents were in

Table 6: showing descriptive analysis central bank rate and loan repayment

Statement	**SA**	**A**	**N**	**D**	**SD**	**Total**	**Mean**	**Std**
The bank uses CENTRAL BANK RATE to determine the interest rate charged on loans		5 10%	15 30%	25 50%	5 10%	50	3.6	0.13
The central bank rate is used to determine the level of Non-performing loans		6 12%	30 60%	14 28%		50	3.16	0.65
CENTRAL BANK RATE shows government intervention in the banks operations	28 56%	8 16%	4 8%			50	1.12	0.36
High CENTRAL BANK RATE increases the level of loan default at FTB		2 4%	14 28%	28 56%	6 12%	50	3.76	1.43
CENTRAL BANK RATE has a relationship with loan repayment	4 8%	9 18%	12 24%	20 40%	5 10%	50	3.26	1.23

disagreement. Therefore, the CENTRAL BANK RATE is not used to determine the level of NPL.

The findings also revealed 1.12 average responses on the Central Bank Rate showing government intervention in the bank's operations. 72% (56+16) of the respondents agreed with the statement while 8% were neutral. This shows Central Bank Rate is influential and is an intervention by the government.

The findings in table 6 also showed a 3.76 average response on Central Bank Rate increasing the level of Non-performing loans. Further, 56% of the respondents disagreed, 28% were neutral, 12% strongly disagreed and 4% agreed with the statement. This shows that the central bank rate does not influence the defaulting of loans directly.

The findings in table 6 also showed an average response of 3.26 with a standard deviation of 1.23. Also, 40% of the respondents disagreed, 10% strongly agreed, 24% were neutral, 18% agreed and 8% strongly agreed. This shows that 74% of the respondents don't agree that Central Bank Rate has a direct relationship with loan repayment at Finance Trust Bank. Pearson correlation between Central Bank Rate and loan repayment

According to the findings in table 7, the correlation coefficient between Central Bank Rate and loan repayment was -0.120 with a Sig value of 0.117. This shows a negative weak relationship between Central Bank Rate and loan repayment at Finance Trust Bank. The P-value of the relationship is greater than 0.05. Therefore, a lower Central Bank Rate does not necessarily guarantee a high loan repayment rate at Finance Trust Bank.

The relationship between loan size and loan repayment at Finance Trust Bank

The researcher used a Likert scale for this particular section of the study where the responses were on a scale of 1-5. Where 1 = Strongly Agree, 2= Agree, 3 = Neutral, 4 = Disagree and 5 = Strongly Disagree. The table below shows a summary of the participant's responses based on percentages (%), frequency (F), standard deviation (Std), and mean;

According to the findings in table 8 loan size of customers is limited by their level of savings. The findings revealed 1.82 mean responses with a standard deviation of 0.17. The biggest proportion (50%) of the respondents agreed with the statement. Also, 34% of the respondents strongly agreed that loan size is limited by the level of savings.

Further, the findings in table 8 revealed that loan size influences the interest rate charged on loans. The findings showed that 44% of the respondents agreed, 38% strongly agreed and 18% were neutral. Therefore, the average response was 1.84 with a standard deviation of 0.62.

Also, the findings in table 8 indicated that large loan sizes led to a high default rate. The findings revealed that 82% of the respondents agreed while

Table 7: showing the correlation between Central Bank Rate and loan repayment

			Central Bank Rate	Loan repayment
Pearson	**Central bank rate**	Correlation Coefficient	1.000	**-0.120** **
		Sig. (1-tailed)		.117
		N	50	50
	Loan repayment	Correlation Coefficient	**-0.120** **	1.000
		Sig. (1-tailed)	.177	
		N	50	50

Table 8: showing descriptive analysis of loan size and loan repayment at Finance Trust Bank

Statement	SA	A	N	D	SA	Total	Mean	Std
The bank has a loan size limit for customers based on savings	17 34%	2550%	8 16%			50	1.82	0.17
The loan size influences the interest rate charged on loan.	18 36%	16 32%	14 28%			50	1.84	0.62
Large loan size led to a high default rate on loans offered.	19 38%	22 44%	9 18%			50	1.8	0.86
Loan size has a relationship with loan repayment	12 24%	19 38%	10 20%	9 18%		50	2.32	1.09

18% were neutral on the statement. The mean response was 1.8 with a standard deviation of 0.86. This shows that loan size influences the default rate.

Therefore, based on the findings in table 8, there is a relationship between loan size and loan repayment at Finance Trust Bank.

According to the findings in table 9, spearman's correlation coefficient between loan size and loan repayment was -0.724 with a significant value of 0.004. This shows a strong positive relationship between loan size and loan repayment. Therefore large loan sizes led to low levels of loan repayment.

The relationship between loan size and loan repayment at Finance Trust Bank

The researcher used a Likert scale for this particular section of the study where the responses were on a scale of 1-5. Where 1 = Strongly Agree, 2= Agree, 3 = Neutral, 4 = Disagree and 5 = Strongly Disagree. The table below shows a summary of the participant's responses based on percentages (%), frequency (F), standard deviation (Std), and mean;

According to the findings in table 10, at Finance trust bank, customers are allowed to bargain on the interest rate offered. Further, the findings revealed that 40% of respondents were neutral, 20% disagreed with the statement and 40% agreed that customers bargain on the interest rate charged. Averagely the response was 2.76 with a standard deviation of 0.98. This shows that there is Finance allows its customers to bargain on interest charges.

Also, the findings in table 10 showed that bargaining power is influenced by the number of borrowers and the loan size. 38% of the respondents were neutral, 34% agreed and 28% of the respondents disagreed with the statement.

Further, the average response on the statement was 2.94. Therefore the majority of the respondents agree that the bargaining power is influenced by the number of borrowers and loan size.

Table 9: Showing the correlation between loan size and loan repayment at Finance Trust Bank

			Loan size	**Loan repayment**
Pearson	**Loan size**	Correlation Coefficient	1.000	-0.724**
		Sig. (1-tailed)	.	.004
		N	50	50
	Loan repayment	Correlation Coefficient	-0.724**	1.000
		Sig. (1-tailed)	.004	.
		N	50	50

Table 10: Showing bargaining power of customers and loan repayment at Finance Trust Bank.

Statement	SA	A	N	D	SA	Total	Mean	std
Customers can bargain on the offered interest rate on loans.	2 4%	18 36%	20 40%	10 20%		50	2.76	0.98
Bargaining power is influenced by number of borrowers and loan size		17 34%	19 38%	14 28%		50	2.94	1.34
Bargaining power reduces the interest rate and the default level of loans	9 18%	23 46%	18 36%			50	2.18	0.18
There is a relationship between bargaining power and interest rate charge on a loan and loan repayment	24 48%	20 40%	6 12%				1.64	0.24

Further, the findings in table 10 showed that bargaining power reduces the interest rate and the default level of loans. 48% of the respondents strongly agreed, 40% agreed and 12% were neutral on the statement. Therefore 88% of the respondents agreed that high bargaining power reduces the interest rate and the default level of loans.

Also, the findings revealed that there is a relationship between bargaining power and interest rate charge on a loan and loan repayment. 52% strongly agreed with the statement, 46% agreed and 2% were neutral on the statement. Averagely, the respondents agreed that there is a relationship between bargaining power and the interest rate charged on a loan and loan repayment.

The findings in table 11 revealed that the spearman's coloration co-efficient between bargaining power and loan repayment was 0.246 with a significant value of 0.753. Therefore, there is a weak positive relationship between bargaining power and loan repayment.

Regression analysis

The findings from table 12 showed that loan repayment was 24.5% predicted by the loan size (Adjusted R Square = 0.245). The remaining 75.5% was predicted by other factors outside the study. The regression model was also valid (sig. <.05). Therefore loan size decreases loan repayment by 24.5%.

Also, the table showed that loan repayment was 35.7% predicted by the central bank rate (Adjusted R Square =0.357). The remaining 64.3% was predicted by other factors outside the study. The regression model was sig. <.000). Therefore, the central bank rate influences loan repayment by 35.7%.

Results also showed that loan repayment was 48 % predicted by bargaining power (Adjusted R Square =0.48). The remaining 52% was predicted by other factors outside the study. The regression

Table 11: showing the correlation between bargaining power and loan repayment at Finance Trust bank

Table 11 showing the correlation between bargaining power and loan repayment at Finance Trust bank

			Bargaining power	Loan repayment
Pearson	Bargaining power	Correlation Coefficient	1.000	.246
		Sig. (2-tailed)	.	.753
		N	50	50
	Loan repayment	Correlation Coefficient	.246	1.000
		Sig. (2-tailed)	.753	.
		N	50	50

model was also valid (sig. <.000).

Generally, bargaining power, central bank rate, and loan size have a significant relationship with loan repayment at Finance Trust Bank.

4. SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

Summary of the response rate

The sample size of the study was 56 staff of the various departments in Finance Trust Bank. Of the selected 56 staff, 6 did not return the questionnaires thus reducing the sample size by 10.7%. Therefore the response rate for this study was 89.3%.

Summary of the background information of the respondents

Of the 50 respondents to the study, 30 were females and 20 were males. This shows that the majority 60% of the respondents were females and 40% were males. Further, the findings revealed that most employees of Finance Trust Bank were females.

According to the findings of the study, 64% of the respondents have at least worked with a commercial bank for over 3 years. Therefore, the majority of the respondents are experienced in banking activities and the operations of the commercial bank.

According to the findings of table 4.2, Finance Trust Bank offers business loans, school fees loans, House loans, and Land loans. Further, the findings showed that 60% of the loans offered by the banks are business loans, 20% are school fees loans, 12% are land loans, and 8% for house loans. The business generally provides loans for business purposes.

Also, the average interest rate charged by Finance Trust Bank was 22.05%. Further, the findings showed that the lowest interest charged by the bank is 15% and the highest interest rate was 25%. Therefore, the bank charges between 25% and 15% as the interest rate on loans to its customers.

The spearman's correlation coefficient between interest rate and loan period was 0.721. This shows that there is a strong positive relationship between interest rates and loans period. Therefore, long loan periods attract higher interest rates.

The longest period for loans is 9 months and the shortest period is 3 months. This shows that generally, Finance Trust Bank offers short-term and medium-term loans. Further, the findings revealed that average, business loans are offered for 6 months, school fees loans for 3 months, housing loans for 9 months, and land loans for 8 months. Therefore, school fees loans are offered in the short run and do not exceed three months. Housing loans take the longest period.

Table 12: Regression analysis of interest rates and loan repayment at Finance Trust bank

Table 12 Regression analysis of interest rates and loan repayment at Finance Trust bank						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.702	.664		4.070	.000
	Loan size	-0.760	.188	-0.717	-4.045	.000
Independent variable: Loan repayment						
	R square	0.276^a			F-statistics	8.953
	Adjusted R Square	0.245			Sig.	0.001
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.930	.664		2.908	.006
	Central Bank Rate	-.890	.179	-0.840	-4.986	000
Independent variable: Loan repayment						
	R square	0.630^b			F-statistics	10.070
	Adjusted R Square	0.357			Sig.	0.000
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.743	0.291		2.551	0.014
	Bargaining power of customers	.363	.146	-0.218	-2.567	.014
Independent variable: Loan repayment						
	R square	0.46^c			F-statistics	6.348
	Adjusted R Square	0.48			Sig.	0.000

The findings in table 5 above showed that an average of 87% of the loans are repaid at Finance Trust Bank. Further, the findings revealed that the minimum loan repayment was at 65% and the highest loan repayment was at 95%. This shows that loan repayment in some months is very low as the rate of default is at 35%.

Summary of the findings of the objectives of the study

Summary of the study findings on the relationship between central bank rate and loan repayment

According to the findings in table 4 above, the average response was 3.6 with a standard deviation of 0.13. Further, 50% of the respondents disagreed with the statement, 30% were neutral and 10% were in agreement. This shows that 60% of the respondents agreed with the statement. Therefore, the Central Bank rate is used by Finance trust bank to determine the interest rate charged on loans.

Also, the findings revealed an average response of 3.16 with a std of 0.65 on the statement "The central bank rate is used to determine the level of Non-performing loans". Further, 60% of the respondents were neutral, 28% were in disagreement and 12% were in agreement. This shows that majority of the respondents were in disagreement. Therefore, the Central Bank Rate is not used to determine the level of Non-Performing Loans.

The findings also revealed a 1.12 average response on the central bank rate showing government intervention in the bank's operations. 72% (56+16) of the respondents agreed with the statement while 8% were neutral. This shows Central Bank Rate is influential and is an intervention by the government.

The findings in table 4 also showed a 3.76 average response on central bank rate increasing the level of Non-Performing Loans. Further, 56% of the respondents disagreed, 28% were neutral, 12% strongly disagreed and 4% agreed with the statement. This shows that the central bank rate does not influence the defaulting of loans directly.

The findings in table 4 also showed an average response of 3.26 with a standard deviation of 1.23. Also, 40% of the respondents disagreed, 10% strongly agreed, 24% were neutral, 18% agreed and 8% strongly agreed. This shows that 74% of the respondents don't agree that Central Bank Rate has a direct relationship with loan repayment at Finance Trust Bank.

According to the findings in table 5, the correlation coefficient between the Central Bank rate and loan repayment was -0.120 with a Sig value of 0.117. This shows a negative weak relationship between the central bank rate and loan repayment at Finance Trust Bank. The P-value of the relationship is greater than 0.05. Therefore, a lower Central Bank Rate does not necessarily guarantee a high loan repayment rate at Finance Trust Bank.

Summary of the study findings on the relationship between loan size and loan repayment

According to the findings in table 6 loan size of customers is limited by their level of savings. The findings revealed 1.82 mean responses with a standard deviation of 0.17. The biggest proportion (50%) of the respondents agreed with the statement. Also, 34% of the respondents strongly agreed that loan size is limited by the level of savings.

Further, the findings in table 6 revealed that loan size influences the interest rate charged on loans. The findings showed that 44% of the respondents agreed, 38% strongly agreed and 18% were neutral. Therefore the average response was 1.84 with a standard deviation of 0.62.

Also, the findings in table 6 indicated that large loan sizes led to a high default rate. The findings revealed that 82% of the respondents agreed while 18% were neutral on the statement. The mean response was 1.8 with a standard deviation of 0.86. This shows that loan size influences the default rate.

Therefore, based on the findings in table 6, there is a relationship between loan size and loan repayment at Finance Trust Bank.

According to the findings in table 7, spearman's correlation coefficient between loan size and loan repayment was -0.724 with a significant value of 0.004. This shows a strong positive relationship between loan size and loan repayment. Therefore, large loan sizes led to low levels of loan repayment.

Summary of the relationship bargaining power and loan repayment

According to the findings in table 8, at Finance trust bank, customers are allowed to bargain on the interest rate offered. Further, the findings revealed that 40% of respondents were neutral, 20% disagreed with the statement and 40% agreed that customers bargain on the interest rate charged. Averagely the response was 2.76 with a standard deviation of 0.98. This shows that there is Finance allows its customers to bargain on interest charges.

Also, the findings in table 8 showed that bargaining power is influenced by the number of borrowers and the loan size. 38% of the respondents were neutral, 34% agreed and 28% of the respondents disagreed with the statement. Further, the average response on the statement was 2.94. Therefore the majority of the respondents agree that the bargaining power is influenced by the number of borrowers and loan size.

Further, the findings in table 8 showed that bargaining power reduces the interest rate and the default level of loans. 48% of the respondents strongly agreed, 40% agreed and 12% were neutral on the statement. Therefore, 88% of the respondents agreed that high bargaining power reduces the interest rate and the default level of loans.

Also, the findings revealed that there is a relationship between bargaining power and interest rate charge on a loan and loan repayment. 52% strongly agreed with the statement, 46% agreed and 2% were neutral on the statement. Averagely, the respondents agreed that there is a relationship between bargaining power and the interest rate charged on a loan and loan repayment.

The findings in table 9 revealed that the spearman's coloration co-efficient between bargaining power and loan repayment was 0.246 with a significant value of 0.753. Therefore, there is a weak positive relationship between bargaining power and loan repayment.

Summary of regression analysis of Interest rate and loan repayment

The findings from table 10 showed that loan repayment was 24.5% predicted by the loan size (Adjusted R Square = 0.245). The remaining 75.5% was predicted by other factors outside the study. The regression model was also valid (sig. <.05). Therefore loan size decreases loan repayment by 24.5%.

Also, the table showed that loan repayment was 35.7% predicted by the central bank rate (Adjusted R Square =0.357). The remaining 64.3% was predicted by other factors outside the study. The regression model was sig. <.000). Therefore, the central bank rate influences loan repayment by 35.7%.

Results also showed that loan repayment was 48 % predicted by bargaining power (Adjusted R Square =0.48). The remaining 52% was predicted by other factors outside the study. The regression model was also valid (sig. <.000).

Generally, bargaining power, central bank rate, and loan size have a significant relationship with loan repayment at Finance Trust Bank.

5. Conclusion

The sample size of the study was 56 staff of the various departments in Finance Trust Bank. Of the selected 56 staff, 6 did not return the questionnaires thus reducing the sample size by 10.7%. Therefore, the response rate for this study was 89.3%.

Of the 50 respondents to the study, 30 were females and 20 were males. 64% of the respondents have at least worked with a commercial bank for over 3 years. Therefore, the majority of the respondents are experienced in banking activities and the operations of the commercial bank.

Finance Trust Bank offers business loans, school fees loans, House loans, and Land loans. Also, the average interest rate charged by Finance Trust Bank was 22.05%. Further, the findings showed that the lowest interest charged by the bank is 15% and the highest interest rate was 25%.

According to the findings in table 5, the correlation coefficient between the central bank rate and loan repayment was -0.120 with a Sig value of 0.117. This shows a negative weak relationship between the central bank rate and loan repayment at FTB. The P-value of the relationship is greater than 0.05. Therefore, a lower Central Bank Rate does not necessarily guarantee a high loan repayment rate at Finance Trust Bank.

The findings in table 9 revealed that the spearman's coloration co-efficient between bargaining power and loan repayment was 0.246 with a significant value of 0.753. Therefore, there is a weak positive relationship between bargaining power and loan repayment.

The findings from table 10 showed that loan repayment was 24.5% predicted by the loan size (Adjusted R Square = 0.245). The remaining 75.5% was predicted by other factors outside the study. The regression model was also valid (sig. <.05). Therefore, loan size decreases loan repayment by 24.5%.

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Results also showed that loan repayment was 48 % predicted by bargaining power (Adjusted R Square =0.48). The remaining 52% was predicted by other factors outside the study. The regression model was also valid (sig. <.000).

Generally, bargaining power, central bank rate, and loan size have a significant relationship with loan repayment at Finance Trust Bank.

Recommendations of the Study

According to the findings of the study, Interest rates are high at 25%, therefore the bank should reduce the interest rate by charging an interest rate that is slightly above the central bank rate by two units. This will improve loan repayment.

Also, the bank should allow customers to always bargain on the interest rate charged. This allows customers to repay their loans with ease hence reducing default levels.

Areas for further research.

Further research should be carried out on the relationship between lending terms and the profitability of commercial banks. Also, a study should be carried out on credit risk management, Covid 19, and Technology on the financial performance of commercial banks as this will help to address the gaps left by the researcher.

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7. Funding:

The researcher used personal finances to carry out this study hence no funders.

Conflict of interest

The researcher is at the same time an employee of the same bank

8. List of acronyms

MSMES Micro, Small and Medium Enterprises

SACCOS Saving and Credit Cooperatives

NPL Non-Performing Loans

ACCA Association of Chartered Certified Accountants

BOU Bank of Uganda

FTB Finance Trust Bank

UBOS Uganda Bureau of Statistics

CBR Central Bank Rate

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