

**CHANGES IN INTEREST RATES ON THE DEMAND FOR LOANS BY  
CUSTOMERS OF UGANDA MICRO CREDIT FINANCE (UMF) IN SEETA  
TRADING CENTER**

**JACINTA NAMUBIRU**

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**UGANDA CHRISTIAN  
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# DECLARATION

## DECLARATION

I Namubiru Jacinta declare that this dissertation is my original work and has never been submitted in any institution of higher learning for any academic award.

NAMUBIRU JACINTA


SIGNATURE:  .....

DATE: 01/09/2023 .....

# APPROVAL

## APPROVAL

This study was conducted with my supervision and the report was submitted for examination with my approval.

  
.....

MR. MUBIRU RICHARD

SUPERVISOR

DATE: 31/8/2023  
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## LIST OF ABBRERVATION/ ACRONYMS

FED.....	Federal Reserve bond
IRT.....	Interest Rate Trend
CFI.....	Corporate Finance Institute
BOU.....	Bank of Uganda
UMF.....	Uganda Micro finance
GSA.....	General Secretary Agreement
UMRA.....	Uganda Micro finance Regulatory Authority
SPSS.....	Statistical Package of the Social Scientist
RTGS.....	Real Time Gross Settlement
EFT.....	Electronic Fiscal Transfer

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## DEDICATION

I dedicate this dissertation to son Gabriel Luke and my lovely parents The Late Mr. Musoke Patrick and Mrs. Ssekagya Josephine who have made sure that this journey is really easy even when I thought it would take forever to get done, they always gave me motivation to continue fighting am so grateful.

## ABSTRACT

The study was about the relationship between the fluctuating interest rates and the demand for loans by customers of Uganda Micro credit Finance in Seeta trading center. Its main objective was to examine the impact of different interest rates movement on the borrowing capacity of customers in Uganda Micro credit Finance.

The study was undertaken following a cross sectional and descriptive research design and a sample size of 65 was used that was selected using a purposive technique however only 55 responses were got and the data was collected using questionnaires and a few interviews that gave the researcher used to collect the relevant information that was showing the relationship between the two variables. The findings were presented using graphs and tables and the data was analyzed using Statistical Package of the Social Scientist (SPSS).

The findings collected showed an 84.4% relationship between interest rates and the borrowing capacity of the customers in financial institutions especially the customers of UMF. As 78% of the customers agreed that their demand for loans is highly based on the movement of interest rates and 80% of the respondents agreed that customers responsiveness to demand for loans changes when interest rates are changed meaning that when interest rates increase, then customers demand for loans reduces and this endangers the process for Uganda Microcredit Finance as a financial institution and therefore it needs to put in to consideration customers responses when it comes to inflation of interest rates while when interest rates are low, over 70% of the respondents agreed that customers demand more loans .

The respondents recommended that the management Uganda Micro Credit Finance should carry out massive employee training when it comes to collecting funds from other sources other than credit given out so as to avoid fluctuating interest rates to a point of irritating customers and discouraging them from borrowing with the aim of collecting funds to finance the institution's operating costs. UMF also need to come up with interest rate policies that manage fluctuating interest rates and implement them in a way that does not damage the institution's financial status but can use them to ensure efficiency and effectiveness.

In conclusion, the findings gave a clear insight on the behaviors of customers of Uganda Micro credit Finance (UMF) when interest rate fluctuate and how these fluctuations affect the performance of the organization. The findings also gave the management of the organization a clue on other factors that also cause a clear influence on customers demand for loans and as to why the people of Seeta tend to rely more on other sources of finance other than get credit.

# CHAPTER ONE

## INTRODUCTION AND BACKGROUND TO THE STUDY

### 1.0 Introduction

An Interest rate is the percentage that a lender charges the borrower from the principal borrowed for the use of the lender's money. (Amadeo 2022). It is also the amount charged over the principal borrowed by the lender as a benefit he/she gets for forgoing his/her money and lending it out rather than using it for their own personal gain. Interest rates are further divided into various groups like Simple interest rate and Compound interest rates that highly affect the borrowing capacity of customers. For the purpose of this study, we are going to focus on the question of how have these various interest rates affected the customers demand for loans. Continuous change in interest rates further results into an Interest Rate Trend (IRT). This is simply defined as the continuous changes in the interest rates. How interest rates rise or fall over time is what is known as a trend. This trend is normally a result of two major factors, the interest rate profit earned from borrowing and the interest rate expense that financial institutions pay to Bank of Uganda.

Customer demand is the other parameter of this research as it is highly affected by the interest rate trend. Customers demand for loans is the desire customers have to get a required amount of money to solve a present issue that is to be repaid with a fee in a specific time period. Customer loans are grouped in various categories namely mortgage loans, personal loans, student loans, secured loans among others.

### 1.1 Background.

According to Seabury (2022), Changes in interest rate can positively or negatively affect the economy. Central Bank often changes their target market rates depending on the state of the economy. In United States, the Federal Reserve bond (FED) is responsible for determining the target interest rates at which banks borrow or lend money to each other or to the public. When FED lowers the interest rates it makes borrowing cheap but when it rises the interest rates it makes borrowing difficult.

High interest rates have a negative impact on customer spending due to the high stock price floating in the market this will further increase the need to borrow more money and reduce on expenditure towards unnecessary commodities. This will result into a full of demand for some goods results into a fall in inflation. Currently the FED has slowly been increasing the interest rate in order to combat inflation since people will not have a lot of money to spend.

It is calculated by dividing the amount of interest by the amount of principal generally interest rates tend to raise during the seasons of inflation due to a greater demand for credit so as to meet the necessary requirements. An increase in interest rates due to any reason tends to reduce the borrowing capacity of customers as well as that of businesses since credit becomes expensive.

According to Corporate Finance Institute (CFI) team 2022, Interest rates can be charged either annually or over a specific period of time like monthly, quarterly, bi annually. However, most of the times interest rates are judged annually. Due to the above statement, there are various types of interest rates like accrued interest, simple interest which is paid regular basis, and lastly compound interest compounded over a specific period of time.

According to Oketch 2022, Bank of Uganda (BOU)'s decision to increase its bank reserve rate to 7.5% from 6.5% in relation to fight inflation in the country is likely to highly push the lending rates for various financial institutions since an increase in demand for credit is inversely related to interest rate (Horcher, 2006). This will end up having negative effect or impact on borrowers as loans get more expensive overtime reducing the borrowing capacity of most borrowers and yet inflation is still

ongoing therefore the still need to borrow in order to sustain themselves in the hot economy until drop in prices.

However, the charges of each loan taken may differ depending on the loan taken and the level of risk. According to Mbanga (2009), The General Managers Business Development and Marketing of Centenary Bank Sylvia Zizanga reported that the different bank perceive risks differently which is why some banks end up charging a very high interest rate in order to curb the risk perceived.

Uganda micro credit finance (UMF) is a non-government micro credit finance organization that is primarily involved in offering loans to various people. It was founded in 2008 and according to its finances, UMF has close to over more than 6000 micro entrepreneurs through its 10 different branches countrywide having 68% of their customers coming from rural areas and 58% of them being women. Their average loan being 798 euro's (3,096,315.73 shillings). Their loans are granted following a particular method that is to say; group loans, individual loans or sector loans. They also offer education, emergency and housing best loans but these are still at a small sector of the firm as they are yet to develop them with the ongoing growth rate of the firm.

Borrowing money from micro credits or any other financial institutions can be in form of short-, medium- or long-term basis loans. It can be done by other individuals, groups or even organization to help them in their daily running of or even embark on new investments. Although financial institutions are put in place to aid the borrowing of money some people are still discouraged from borrowing money because of the high interest rates and other charges associated with borrowing. Due to this, financial institutions have come up with offers to help encourage customers to borrow more money and customers also need to find out about the different benefits they are likely to enjoy before getting into debt.

## 1.2 Statement of the problem

An increase or decrease in interest rates highly affects the borrowing capacity of customers of Uganda Micro credit Finance in Seeta trading centre since it determines the amount of money to be paid back and therefore a continuous rise in the interest rates highly discourages customers from taking loans and this in return negatively affects the performance of the financial institution as many of the possible clients prefer to take on credit facilities from their local sacco's as compared to taking credit from UMF and this is because of the high interest rates that are levied on the loans and the tight terms and conditions that majority of the people in seta cannot afford .

The interest rates charged on loans by the different financial institutions greatly affect the level of borrowing of citizens. Since normally the rates set by the central bank are supposed to be followed by the different financial institutions when issuing loans. According to Atingi 2022, (BOU) increased its Bank rate by a next 1% from 7.5% to 8.5% in a fight to reduce inflation.

Due to this, financial institutions end up raising their interest rates higher and micro credit finance ends up increasing its interest rates even higher than commercial banks in order to get enough money to help sponsor the company's day to day activities discouraging customers from borrowing. Since micro finances tend to get the money that they survive on from customer interests paid.

In an attempt to control or prevent financial institutions from exploiting customers the (BOU) together with the Uganda Micro finance Regulatory Authority (UMRA) has come up to regulate micro finances interest rates following the law in the Tier 4 Micro finance institutions act and money lenders act 2016 that clearly states in Section 5 subsection 90 that the minister can or may with consultation or support from the necessary authorities with a notice in the newspapers Gazette clearly state a maximum interest rate which every micro finance can charge but not above it.

### 1.3 Purpose of the study

The purpose of the study was to examine the impact of interest rates on the borrowing capacity of customers of Uganda micro credit finance (UMF) in Seeta trading centre.

### 1.4 Specific Objectives of the study

The specific objectives of the study were;

To examine the relationship between interest rates and the borrowing capacity of customers in financial institutions.

To examine responsiveness of the demand for loans as and when interest rates are changed.

To examine other reasons that affect customers demand for loans.

### 1.5 Research questions

The research was set to answer for the following research questions;

What is the relationship between interest rates and the borrowing capacity of customers in financial institutions?

What is the responsiveness of the demand for loans as and when interest rates are changed?

What other factors affect customers demand for loans in financial institutions?

### 1.6 Scope of the Study

#### 1.6.1 Content Scope

The study was about the impact of interest rates on the borrowing capacity of customers in Uganda micro finance (UMF). Its main focus was to examine the relationship between the interest rates and the borrowing capacity of customers in financial institutions especially customers in UMF. To examine the responsiveness of the demand for loans when interest rates are changed. To examine any other factor affecting customers demand for loans in financial institutions.

#### 1.6.2 Geographical Scope

The study was carried out at UMF Seeta Trading Centre.

#### 1.6.3 Time Scope

The study was conducted from July 2023 to August 2023 and it covered financial information of UMF. This was chosen to help us understand how UMF has adapted to the increasing interest rates during this inflation time as well as state how it has controlled the challenges that still exist in financial institutions due high interest rates.

### 1.7 Significance of the study

This study will help financial institutions learn how to solve challenges that are associated with high interest rates in order to encourage customers to borrow more money so as to increase their credit worthiness.

The study will help financial institutions understand the relationship between loan borrowing capacity of customers in relation to interest rates and how they affect each other.

The study will educate future researchers about the different factors that affect interest rates and the relationship each factor has with the borrowing capacity of consumers.

## CHAPTER 2

### LITERATURE REVIEW

#### 2.0 Introduction

This chapter gives a detailed review of the various literature and explains that content concept of interest rates as well as discuss the effects associated with the increasing and decreasing of interest rates in relation to the loan borrowing capacity.

#### 2.1 Loan Borrowing Capacity

According to Cocciolone (2017), Loan borrowing capacity is the amount of money a lender will loan to a borrower based on your financial situation. Loan borrowing capacity is also known as the borrower's power to acquire credit and is asked by both banks and credit giving institutions.

According to finance Circle group (2019), it is really important for a borrower to get to know their borrowing capacity before acquiring a loan in order to get a clear picture what amount of money they can get from the lender. Borrowing capacity however tends to vary according to the lenders analysis of risk since it is calculated basing on a number of factors. As the lender is trying to make sure you are capable of repayments towards the mortgage made now and, in the future, (Cocciolone, 2017). The financial institutions will assess the borrower's capacity using the his or her current financial situation following his past payments as well his income levels in relation to situations like raise in interest rates.

Lenders measure the borrower's capacity using certain criteria money mainly considering risk that is that is why different borrowers have different borrowing capacity due to different risks together with other factors like size of the loan or type of the loan as well as your monthly expenses and interest rates. Calculating loan borrowing capacity is done using two major variables that's is income and expenditure and the two keep changing depending on the loan. (Tally, 2021).

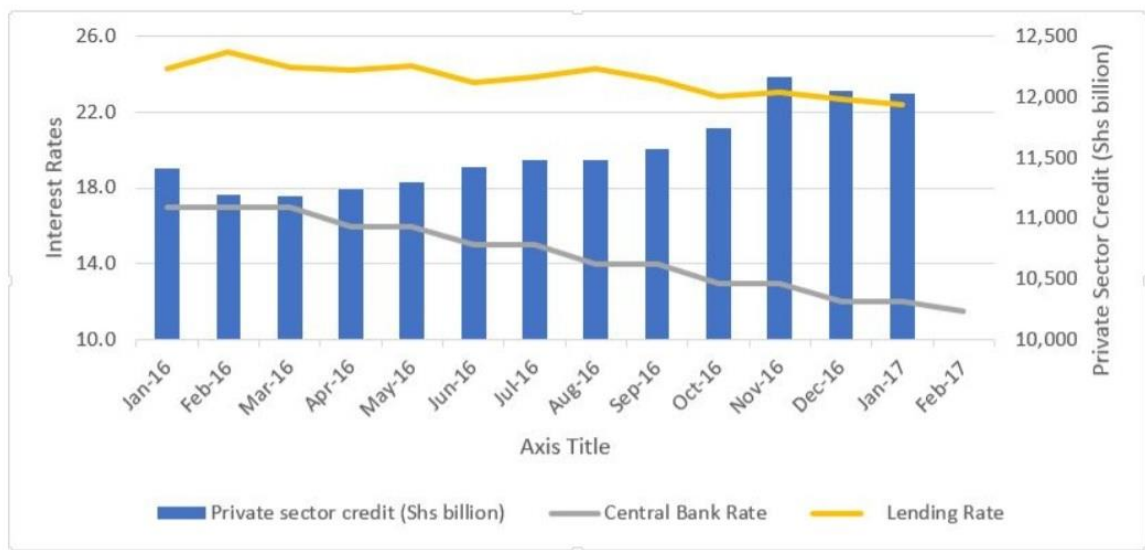
##### 2.1.1 Income

This is one of the factors that is highly considered by the lenders especially when measuring borrower capacity. Lenders can now determine the borrower's capacity of payment and how much they will give him as debt since his income gives the lender a clear picture of exactly what the borrowers repayment structure will be like. According to Sentemortgage (2021), these incomes also include bonuses, overtime, tips.

#### 2.2 Interest Rate Trend

Interest is simply the cost of borrowing. In other words, the borrower pays a certain amount of money over the principle to the lender of the amount of money borrowed. (Justin 2022). This amount of money is calculated based on an interest rate that is determined by the borrower based on certain factors like inflation, bank rate among others. An interest rate is the rate charged on the principal annually to get the interest that a borrower must pay against the principal they borrowed. However, a continuous an up and down movement in interest rates cause an interest rate trend that is determined by BOU and this trend is used to measure the borrowing levels of the private sector in the country as seen in figure 1 below:

Figure2.1: The interest rate trend against the borrowing capacity of customers



James (2021), clearly states that low interest rates encourage customers to borrow more as well as invest even more since they are not afraid of the cost, they will have to pay for the money they borrow. This is an added advantage to financial institutions since they are able to lend out more money and increase their profit levels. However, when interest rates are high, people are discouraged from borrowing since the cost of borrowing is relatively high especially when interest rate increase faster than the customer’s salary which in turn reduces the profits earned by financial institutions.

## 2.3 Theoretical Framework

There are various theories that may relate interest rates and the loan borrowing capacity of customers. For the purpose of the study, we are only going to focus our concentration on a few.

### 2.3.1 The Liquidity theory

According to most classical economists and in particular Keynes, the supply and demand for capital (money) are the main determinations of interest rate. Some of the writers according to Deepali, described interest rates as the charge given to borrowers by the lender concerning the borrowers taste for his or her current consumption in relation to the amount of money, he or she has borrowed to aid his consumption.

The liquidity theory of Keynes according to Tily (2006 pg. 659), the rate of interest is mainly determined at a point where there is a balance between Salary and investment. According to Deepali, most authors believe that savings used in investments are only acquired if one forges their consumption of income. They must be able to pay the savers (owners) an interest to overcome the time agreed upon between the investors and the saver.

This implies that the interest rate charged by financial institutions should be low in order to encourage more investors to borrow money as compared to the interest rate of savings that should be maintained even lower so as to discourage saving and encourage borrowing such that most people further invest in order to find the need to go in for borrowing since the management of interest rates is quite capable of having a effect on the fitting volume of investment.

### 2.3.2 The Loanable Funds theory

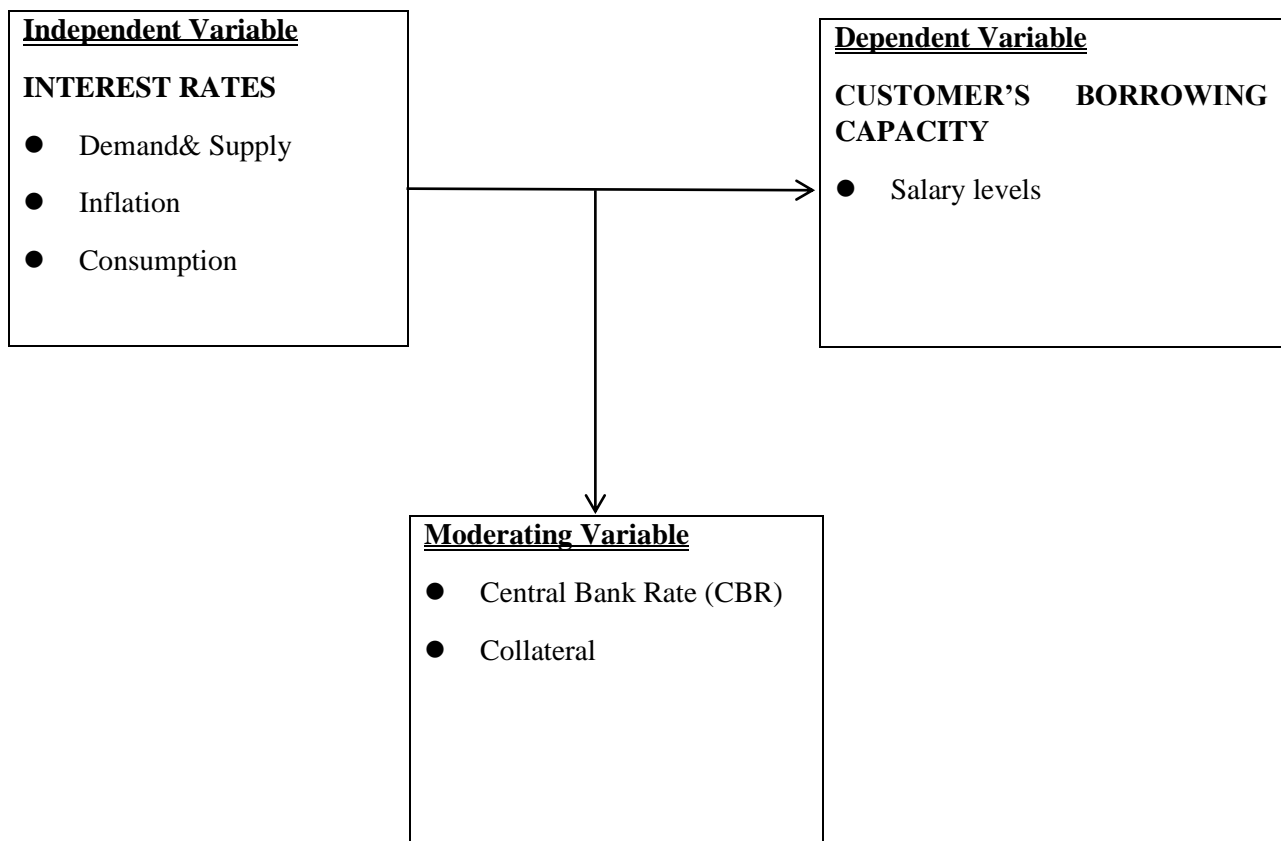
This theory is also known as the neo classical theory. The loanable theory according to Ackernaim and Grimsley (2022), the loanable funds are basically all the incomes that both individuals or organizations have a decided to either save for further use and even loan out rather than spending it all on consumption. Such funds are known as credit. The theory based on market interest rates in relation

to either a customer saves now on in the future together with the forces of demand and supply of money.

The theory considers a customer decision to save based on a high interest rate related to savings and they intend to benefit more from the savings other than consumption. When the interest rates drop, in relation to savings, the customers would rather prefer to lend them out so as to benefit more from the rising lending rates due to the demand for credit by the borrowers since loanable funds are funds available for borrowing and can only be accumulated when consumption forges consumption in order to have enough money for lending.

## 2.4 Conceptual Framework

Figure 2.2 Conceptual Framework.



The figure above 2.2 mainly shows a relationship between the two variables interest rates the independent variable and collateral which is the moderating variable and how it affects the loan borrowing capacity of customers in financial institutions. This means that loan borrowing capacity depends on interest rates together with collateral.

## 2.5 Interest rates and loan borrowing capacity

### 2.5.1 Demand and Supply and Salary levels

According to Openstax 2012, Those who generate money or save it or make financial Investments using it. These become the suppliers in the financial market in other words, these become the lenders in the market while the others who need money from the lenders are on the demand side of the market. Therefore, in the financial market those who lend /supply money need and desire a rate of return or an interest rate depending on the level of risk or investment made by the lender. The level of investment will determine the amount of money demanded in order to fit the investment at a given interest rate.

Openstax further notes that a high interest rate will demoralize customers from borrowing money resulting into a low demand for money which in return further declines the amount of money in supply. According to Deepali, the general equilibrium level is the point at which the demand and supply curve intersect or are equal. According to Openstax (2012), at a point when interest rate rises above the equilibrium then an excess supply of money will rise in the market at a limited demand for borrowing it hence resulting into a float of money on the market.

At a point when interest rates fall below the equilibrium then there will be a high demand for borrowing money with a limited supply resulting into a shortage of funds. This means that the amount of money in circulation is lower than the demand for it.

When interest rates rise faster than the customer's salary level, the customer's demand for credit reduces due to the fear of not being able to manage the cost that comes along with the credit (loan) got and this in turn reduces the profits made by financial institutions.

Before a lender even grants any loan to any borrower, they will consider the borrower's income stream as it acts as proof to the lender of the borrower's capacity to pay. Since the income levels act as a risk reduction assurance ground.

### 2.5.2 Inflation and borrowing capacity

According to Stringer 2020, Inflation and interest rates tend to have a correlating relationship, that is to say, when one falls, the other will raise and when one rises the other will fall. In other words, they work hand in hand.

According to Segal (2022) Inflation occurs when the economy is having a steady general/persistent increase in the general price level of commodities together with a fall in the customer's purchasing power or rather demand. He further notes that inflation can both benefit the borrower and the lender depending on the current conditions.

When the borrower's wages/ salaries increase as a result of inflation. This ends up benefiting the borrower as it means that the borrower will have enough money to pay of the lender in the shortest time possible unfavorably the lender from acquiring high rates of interest since interest mainly works hand in hand with the time spectrum. When a borrower pays off his / her debt earlier than the anticipated time by the lender. This means that the lender will enjoy little or no interest from the borrower. (Segal 2022)

While on the other hand, when inflation occurs in an economy, this means that more people will require money in order to continue with their day-to-day activities, especially at a time when their wages have been kept constant. This highly benefits the lender since the higher the price the higher the money demanded, resulting into a higher interest rate. (Segal 2022)

According to Luthi (2022), the longer the time when interest rates are low the longer the customer's capacity to borrow money resulting into a flood of money on the market together with over expenditure resulting into inflation. Due to this occurring inflation. This will result in to an increase in the interest rates, which will discourage borrowers from acquiring or borrowing money, hence reducing the amount of money in circulation or supply resulting into a drop in prices due to a decrease in the purchasing power of customers as well as demand.

Since money lenders expect the risk of inflation, they tend to charge a higher interest rate to the borrowers due to the negative impact that inflation has on the value of money. Due to this, lenders charge a higher interest rate so that they can cover up the loss of money value when inflation occurs. (Heakal 2022)

### 2.5.3 Consumption and loan borrowing capacity

Consumers consumption levels, together with their income levels, highly affect the borrowing capacity. When interest rates are high, consumers tend to save their incomes in order to highly benefit from them (Maverick 2021) other than spend them, hence reducing the need or urge to borrow. Maverick further notes that the other side of the marginal propensity to save is the marginal propensity to consume, that is to say, when interest rates are low, people would rather acquire a short-term loan in addition to their income and purchase a commodity of their liking. Other than save.

In an effort to control inflation, Central Bank tends to increase its interest rates and due to this, financial institutions also tend to increase their interest rates, which discourages the borrowing capacity of customers. Due to the high cost attached to borrowing which further reduces the disposable income of customers. Later toning down spending as well as impact a financial injury on those who are already existing with loans. As they will have a lot of money to pay off as interest rather than spend it as they wish. (Pettinger 2021)

Pettinger further explains that one's consumption levels will increase mainly when the interest rates are low as they discourage customers from saving and also make the borrowing capacity or costs cheaper. Therefore, one does not need to worry about the level at which they are spending their income since they are assured, they can acquire loans at a very low or minimum cost to finance greater spending or even further investments like company expansion.

This means that similarly, on the other hand, consumers will spend less at high interest rates due to their desire to save their incomes and fear of the high-cost related borrowing. Since are not they are not certain about an alternative source of finance.

High interest rates are known to affect consumer spending either substitutionary or income based. Therefore, reducing consumption through the substitution effect as it becomes expensive as compared to an alternative which is saving the money now and consuming it in the future when the interest rates are low. As they are assured of the little rate or return that they might have acquired after saving when the rates were high therefore increasing their disposable income. (Rivas 2016)

## 2.6 Collateral

Collateral mainly refers to the asset a lender accepts /receives as security for a loan taken (Kagan 2022). It can easily be taken by the lender in case the borrower fails to pay and he or she ends up selling it in order to solve outstanding balances.

### 2.6.1 Value of Collateral

Collateral is more of security that backs up a loan to be acquired and it is known as a secured credit (Peterdy 2016). Peterdy further explains that for an asset to be taken as collateral, a lender must register it and attach a value over it either by using a fixed or on market floating value. These charges are normally known as liens. A floating. Charge is mainly registered following the General Security Agreement (GSA). It helps the lender to know all other assets a borrower has other than the one he has registered enabling the lender to register another asset to be used as collateral so as to secure their loan repayment.

The charges made are often filled with the public registrar, and they normally differ according to the jurisdiction. This is to enable all the stakeholders to know and understand clearly who has claims over the asset. Charges charged first are known as high-ranking claims and are normally most senior than those below them.

Peterdy also notes that the tool used to help conceptualize how desirable an asset is. The **MAST** framework. Where he clearly explains it as **Marketable**, implying that the asset should be easily bought once put out on the market that is to say, people should have the urge to purchase it.

It should be Ascertainable, in other words, it should easily be changed into price and this mainly affects the real estate assets that are seemingly hard to value. He also goes as far as noting that a desired asset should be stable in value for collateral, unlike stock exchanges that tend to have an uncertain or unstable value tend to become less desirable due to fear of making the collateral strained.

The value of collateral also has to be transferable if involves assets like inventory, then it should easily be transferred from one location to another without incurring more costs.

Peterdy also notes that the assets worth is another key aspect considered by lenders further explaining it as an assets monetary value and its book value being the main aspect used in cases of even of inventory or accounts receivable. For scenarios where equipment is involved as collateral, appraisal person can be used to value the asset before being used as collateral.

Once a borrower repays all his debt to the lender, then the claim is discharged or removed from the collateral by the Legal Counsel of the Financial institution and returned back to the borrower. But in case of failure to pay, then the lender can sell off the asset to which they have a charge in order to recover the outstanding balances that is to say original debt and accrued interest.

In cases of collateral like mortgage foreclosure is the process by which the lender takes full possession of the property (Hardika Et Al 2022) Therefore, lack of collateral excludes many from the borrowing process.

## 2.6.2 Types of Collateral

The process of using a fixed asset as a collateral is known as mortgaging, for example, storage building apartments, among others. While the opposite is known as hypothecation. (Using moving assets.) These are some of the types of collateral normally used according to Kagan, (2022)

### 2.6.2.1 Land or Property Collateral

This is known as an immovable asset and. Hardika et al 2022 further notes that this is the most common type of collateral used by real estate like homes, apartments, rentals and it is the most preferred type of collateral by lenders because it does not depreciate over a short period of time as well as retain its value. Though this could be a great risk to the borrower, especially if the mortgage in question is the borrowers' main source of income or home.

### 2.6.2.2 Machinery or Vehicles

This is a movable asset that tends to hold the value at which it is sold in case of failure to pay ( Hardika et al 2022). According to Camberato (2021), vehicle or machinery collateral are found under the business equipment collateral and also calls it a low-risk collateral. He further notes that being equipment, with a depreciation rate then it is bound to undergo wear and tie and therefore this type of collateral limits the borrower's capacity to acquire large amounts of money due to the level of basis lenders have together with the fear of failure to find an interested buyer for the equipment.

### 2.6.2.3 Inventory Collateral

This type of collateral deals with the inventory found in the retail shops and ecommerce shops. It can be used to acquire loans or finances. Though its highly disregarded by lenders since it may be difficult to completely sell the inventory in order to acquire the funds in case the borrower fails to pay due to the competing forces of demand and supply. (Comberato 2021). He further notes that use of this type of collateral may have a negative effect on the borrower since it results in to default of payment due to lose of inventory. This puts the borrower in an incapable position to generate profit rating the business bankrupt which far hinders the borrower from acquiring any other credit.

### 2.6.2.4 Blanket Lien Collateral

According to Camberato 2021, Blanket lien collateral is a totally different type of collateral and is highly enjoyed by lenders since failure to pay the required funds from the borrower to the financial

institution giving the lender right and power to take over any or all the business assets in an attempt to try to repay himself. This type of collateral highly protects lenders but opposes serious risk and damage to borrowers since it is very possible and easy for them to lose everything with failure to pay

## 2.7 Other factors

### 2.7.1 Borrowers credit history

According to Duff 2022, the lender tends to carry out a background check on the borrowers capacity to pay back making a follow up using the borrowers past payment records to make sure the borrower did not default any payment in the past in order to know the kind of risk he is throwing himself in to by offering credit to the borrower. She further notes that if the borrower can prove to the lender that he is a reliable borrower and can pay all his debts on time then the lender can be confident enough to increase credit worth to higher amounts. She further notes that in case of any default payment or late payments these can be a great turn off for the lender as a way to avoid risk and bad debts. Borrowers with a good credit history often receive low interest rates from their lenders at high amounts due to assurance of repayment (Shea 2017)

## 2.8 Conclusion

In conclusion, the changes in interest rate based on some of the factors listed in this chapter show the relationship between the independent and dependent variables that are also highly affected by other inter-mediating factors like collateral that affect the demand for loans.

## CHAPTER THREE

### METHODOLOGY

#### 3.0 Introduction

This chapter is about the methodological research design that was applied while conducting the study. It includes the Research Design, Study Population, Sample Size and Selection Techniques, Sampling techniques, Data Collection Methods, Data Collection Procedure, Data management and Analysis and Measurement of Variables that were used in the research.

#### 3.1 Research Design

The research design used was cross sectional and descriptive in nature consisting of both qualitative and quantitative methods of research.

#### 3.2 Study Population

The Researcher used responses from Employees, Customers and Managers of Uganda Micro Finance since the research is aimed at finding out the relationship between interest rate fluctuations, inflation consumption and Loan borrowing capacity.

#### 3.3 Sample Size and Selection Techniques.

The researcher used Yamen's formula to determine the sample size that was used following the formulae:

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

Where:

n: Sample size

N: the population size

e: the precision 0.05(assumed)

**Table 3: Sample size**

Category	Population	Expected Respondents
Credit Management Officials	30	30
Clients	35	35
Total	65	65

#### 3.4 Sampling Techniques

The respondents were selected using purposive technique. This means the researcher got those people that have the information she requires to conduct her study.

#### 3.5 Data Collection Methods.

##### 3.5.1 Questionnaires

The researcher used them to collect relevant information from a wide number of respondents in regard to the topic to be studied so as to help increase the accuracy of the study/ information gathered.

### 3.5.2 Interviews

Face to face interviews were conducted to help the researcher get first hand and clear information from the administrators concerning the topic at hand. They also helped the researcher to clarify ambiguous answers from first hand informers.

## 3.6 Data Collection Instruments

### 3.6.1 Questionnaires

The researcher used questionnaires to carry out research in this topic from a wide number of respondents. The questionnaires strictly contained close ended questions so as to ease data collection.

## 3.7 Data Collection Procedure

### 3.7.1 Primary procedure

The researcher used these procedures so as to collect first hand and accurate information from the respondents' using questionnaires and a few interviews.

### 3.7.2 Secondary procedure

The researcher used various documents, statistical reports, journals, company records among others to collect relevant data in reference to the research topic.

## 3.8 Data Management Analysis.

### 3.8.1 Quantitative data analysis

Statistical Package of the Social Scientist (SPSS) was used to show the relationship between the variables.

## 3.9 Data Presentation

Data is presented in form of graphs, tables, so as to clearly show the relationship between the two variables at hand.

## 3.10 Limitations of the study

The challenges faced while carrying out the study were;

- Funding

Transport costs incurred while transporting from areas of residence to the study area that is UMF while carrying out research as well as other expenses like meals

- Easy access to the data

This was made difficult by some people who were not willing to cooperate with the researcher making data collection a little difficult.

## CHAPTER FOUR

### PRESENTATION, ANALYSIS AND INTERPRATION OF RESEARCH FINDINGS

#### 4.0 Introduction

The study was to examine the influence of the changes in interest rates on the demand for loans by customers of Uganda Micro Credit Finance (UMF) in Seeta trading centre. The study was guided by the following specific objectives;

- 1.To examine the relationship between interest rates and the borrowing capacity of customers in financial institutions.
2. To examine the responsiveness of the demand for loans as and when interest rates are changed.
3. To examine other reasons that affect customers demand for loans.

In relation to the study, the targeted population of the study were employees and customers of Uganda Micro Credit Finance Seeta branch from various departments like customer service who are known as tellers, credit officers, credit managers among others. The sample size of the study was 65 and out of these only 55 responded which gave the researcher a response rate of

#### 4.1 Demographic characteristics of respondents

In this section, the researcher presented the findings that were obtained from the field based on the respondent's demographic characteristics like gender, age bracket, marital status and occupation. These were used to acquire general information concerning respondents' personal information that was categorised under section A of the questionnaire.

##### 4.1.1 Respondents gender

The findings concerning the respondent's gender were as follows:

**Table 4.1 Gender of the respondents of the study**

Gender	Frequency	Percent	Valid Percent
Female	28	50.9	50.9
Male	27	49.1	49.1
Total	55	100.0	100.0

Source: primary data

Figure 4.2: A graph showing the even distribution of the respondent’s gender among the members of the organization.

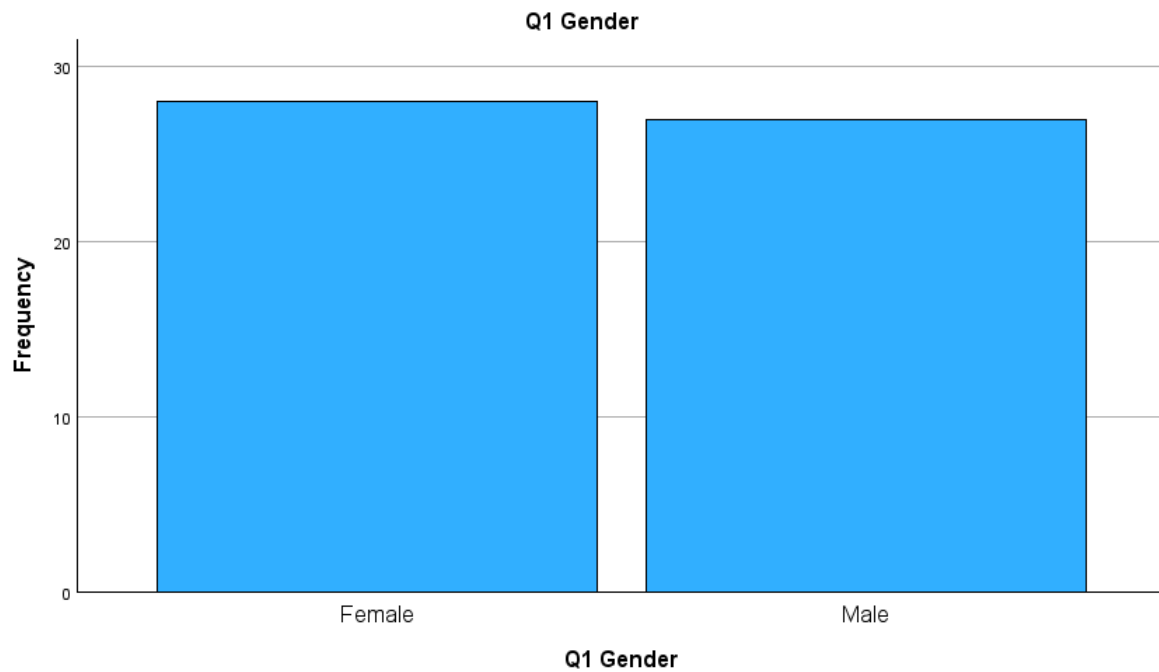


Figure 4.2 clearly shows that 28 of the respondents were female and only 27 were male showing an even distribution of the responses collected among the respondents.

#### 4.1.2 Age bracket for respondents

The information concerning the age bracket of the respondents was represented as follows:

**Table 4.2 Age bracket of the respondents of the study**

Age bracket	Frequency	Percentage	Valid Percentage
20-29	9	16.4	16.4
30-39	17	30.9	30.9
40-49	17	30.9	30.9
50 and above	12	21.8	21.8
Total	55	100.0	100.0

Source: Primary data 2023

Figure 4.3: A graph showing the respondent's age bracket.

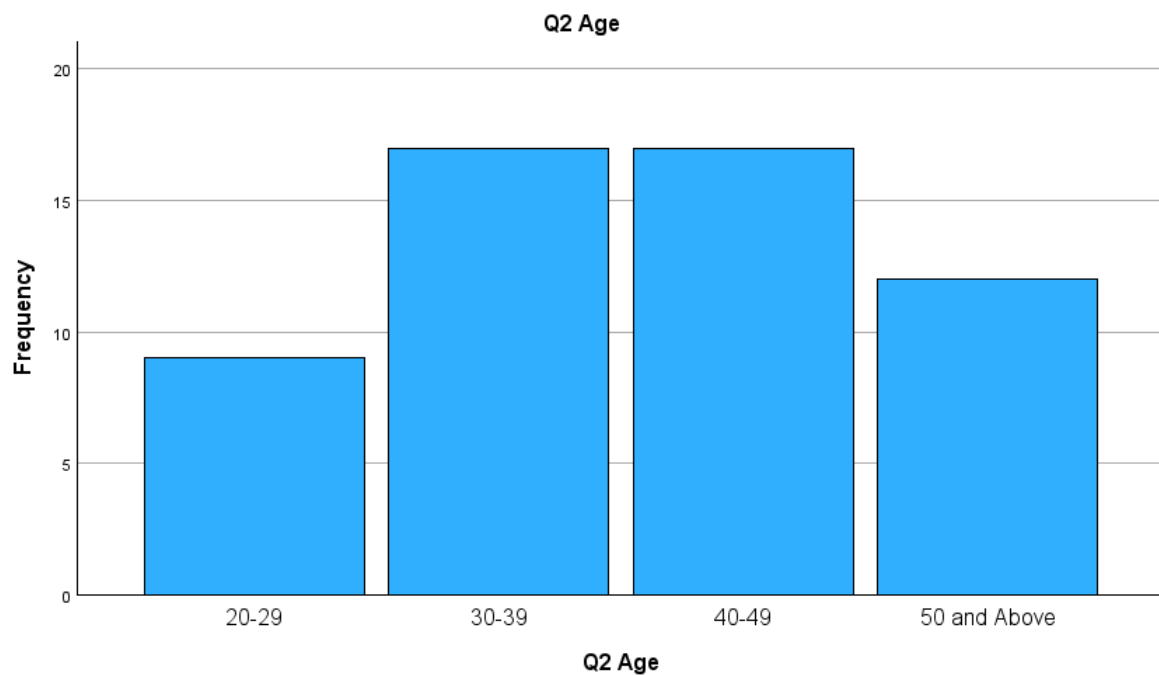


Figure 4.3 above clearly shows that most of the customers and the employees of Uganda Micro Credit Finance range between the ages of 30-39 and 40-49 meaning that people of these age brackets make up a bigger percentage of the population in the organization.

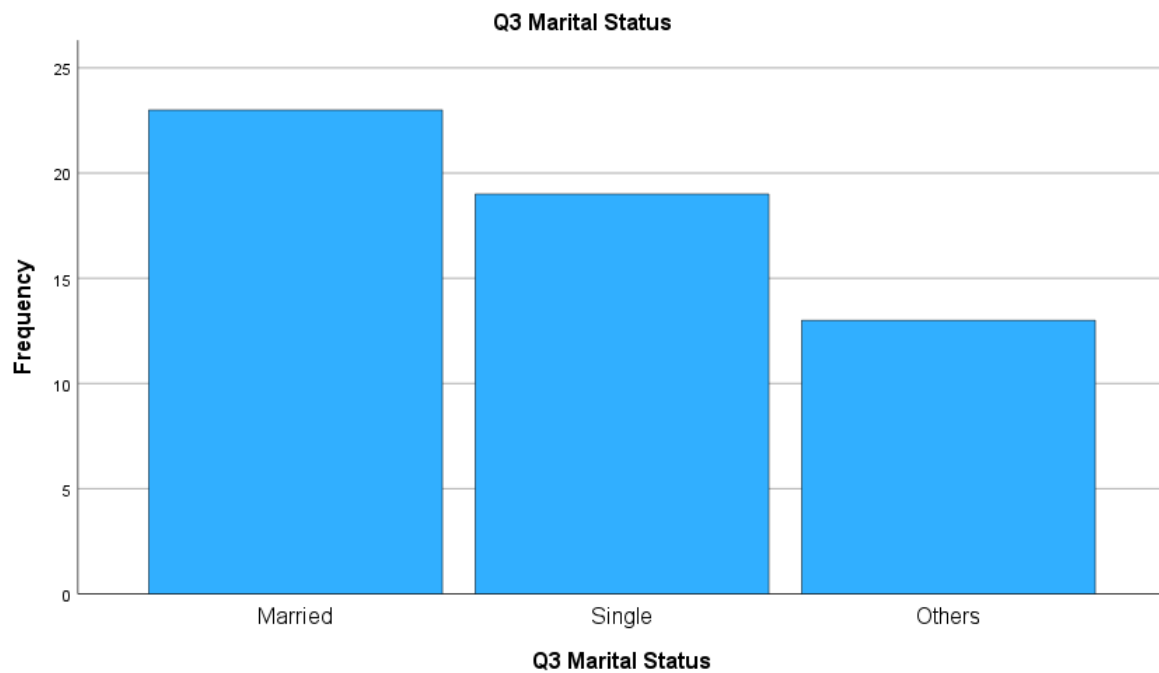
#### 4.1.3 Respondents Marital Status

The information in relation to the population marital status was as follows:

**Table 4.3 Marital Status of the respondents of the study**

		Frequency	Percent	Valid Percent
Valid	Married	23	41.8	41.8
	Single	19	34.5	34.5
	Others	13	23.6	23.6
	Total	55	100.0	100.0

Figure 4.4: A graph showing the distribution of the population's marital status



Based on the above figure 4.4, indicates that majority of the staff and customers of Uganda Micro Credit Finance are actually married with a rate of 23 dominating the population of the organization followed by the singles with a rate of 19 and then lastly those that follow under others that have a percentage of 13. This clearly shows that the married population tends to seek out more of the organizations services as compared to those that fall in other categories of marital status.

#### 4.1.4 Occupations of respondents

The study was focused on a number of different individuals from various departments of the institution. The data was later collected and analyzed by researcher and the following were the results about the respondent's occupations.

Table 4.4 Occupation of the respondents

Occupation	Frequency	Percent	Valid Percent
Customer	25	45.5	45.5
Teller	5	9.1	9.1
Credit officer	5	9.1	9.1
Credit Manager	2	3.6	3.6
Accountant	2	3.6	3.6
Blank	11	20.0	20.0
Others	5	9.1	9.1
Total	55	100.0	100.0

Figure 4.5: A graph showing the different responses got in relation to the respondent’s occupation.

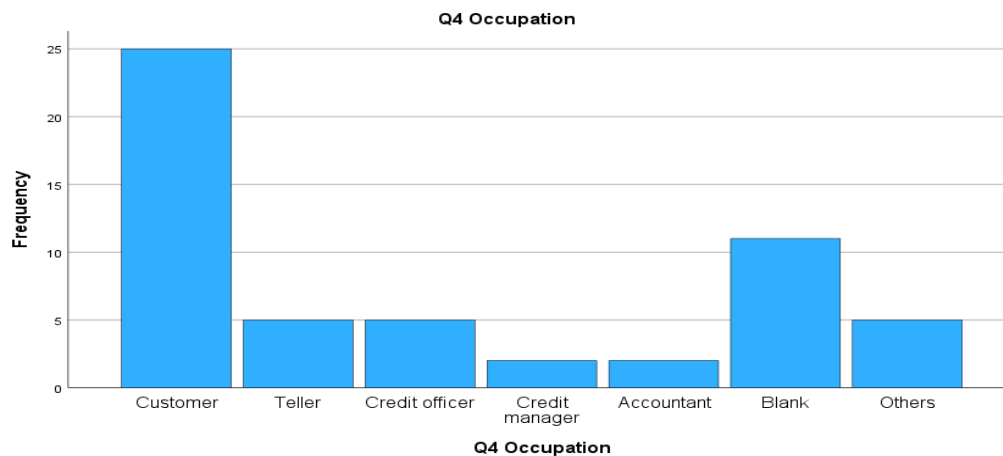


Figure 4.5 above shows that 25 of the respondents were customers which indicates that the customers had more interest in the subject since it was highly affecting them over the other different types of occupations like organization staff that had a representation of only 12 among the respondents. It also shows that those who did not give any reply on this inquiry were really many among the respondents as they occupied a big number of the respondents which was 11.

#### 4.2 Current Interest rates on loans

Based on an overall view of the data collected from the respondents, the analysis reflected that majority of the respondents agreed that the current interest rates and their related issues had such a significant role to play in regards to the influence they had over the loan demand rate of the customers and some of the staff of the organization. The results also gave an insight on how the demand rate of the loans affected the performance of the organization and

therefore the organization needs to pay great attention to the interest rate movements so as to ensure that it does not negatively affect the desire/demand for loans by its stakeholders. In relation to current interest rate characteristics different statements were given and respondents were requested to rate the various statements that were given to them in relation to the current interest rates on loans in Uganda Micro credit Finance basing on the scale that was given to them.

#### 4.2.1 Interest rates change over time.

The respondents were asked to rate the statement that interest rates change over time based on the scale that was given to them. Data was collected and results were obtained as follows;

**Table 4.5 Current interest rates on loans**

Response		Frequency	Percent	Valid Percent
Valid	Not sure	10	18.2	18.2
	Agree	18	32.7	32.7
	Disagree	6	10.9	10.9
	Strongly Agree	21	38.2	38.2
	Total	55	100.0	100.0

Figure 4.6: A graph showing the responses given based on interest rate change over time.

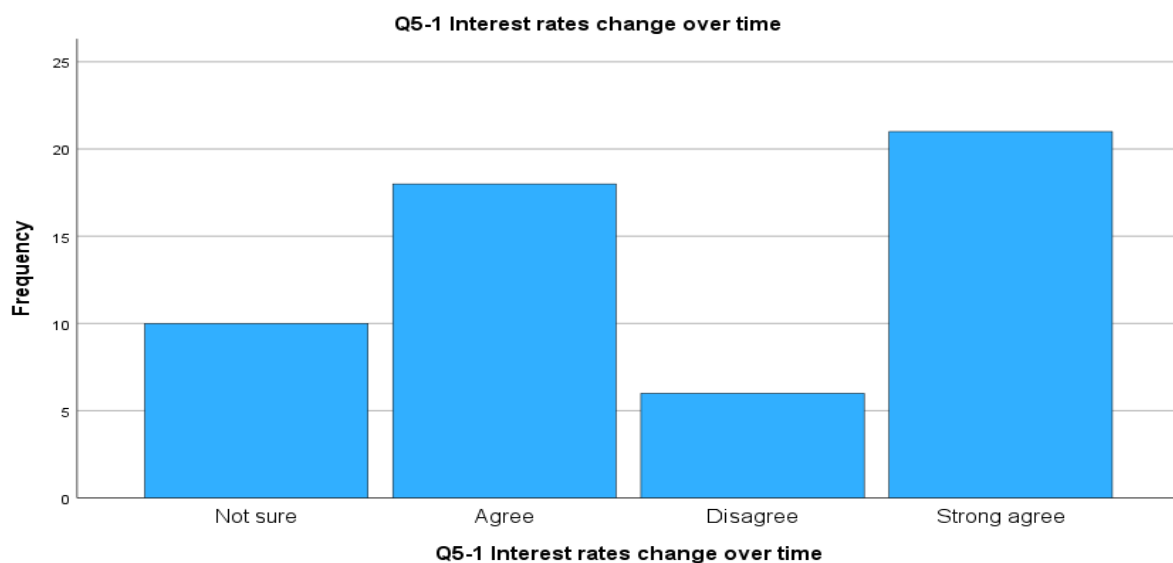


Figure 4.6 clearly shows that over 21 of the population of Uganda Micro credit Finance strongly agreed that interest rates do change over time and 18 agreed to the statement giving a total of 39 of the respondents being in total agreement of the statement and only 6 did not agree with the statement while 10 of the respondents were not sure.

#### 4.2.2 Most customers are sensitive to loan interest rates

Respondents were asked to rate their sensitivity to interest rates in relation to loan demand and the findings from the data collected were as follows;

**Table 4.6 Sensitivity to loan interest rate**

Responses		Frequency	Percent	Valid Percent
Valid	Not sure	10	18.2	18.2
	Agree	18	32.7	32.7
	Disagree	10	18.2	18.2
	Strongly Agree	17	30.9	30.9
	Total	55	100.0	100.0

Figure 4.7: A graph showing the responses towards the sensitivity that customers portray when it comes to loan interest rates.

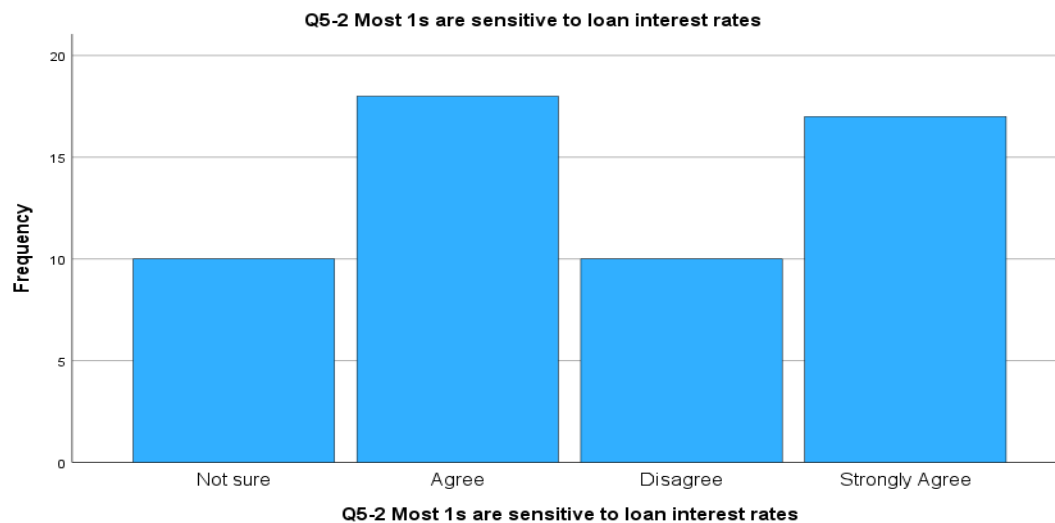


Figure 4.7 clearly indicates that majority of the respondents were in total agreement with the statement concerning customer sensitivity and loan interest rates with a response range of only 18 respondents representing those respondents that agreed to the statement and 17 strongly agreed to the same statement making a total percentage of 25 agreement responses and 10 disagreeing to the statement as well as 10 having their response as not sure.

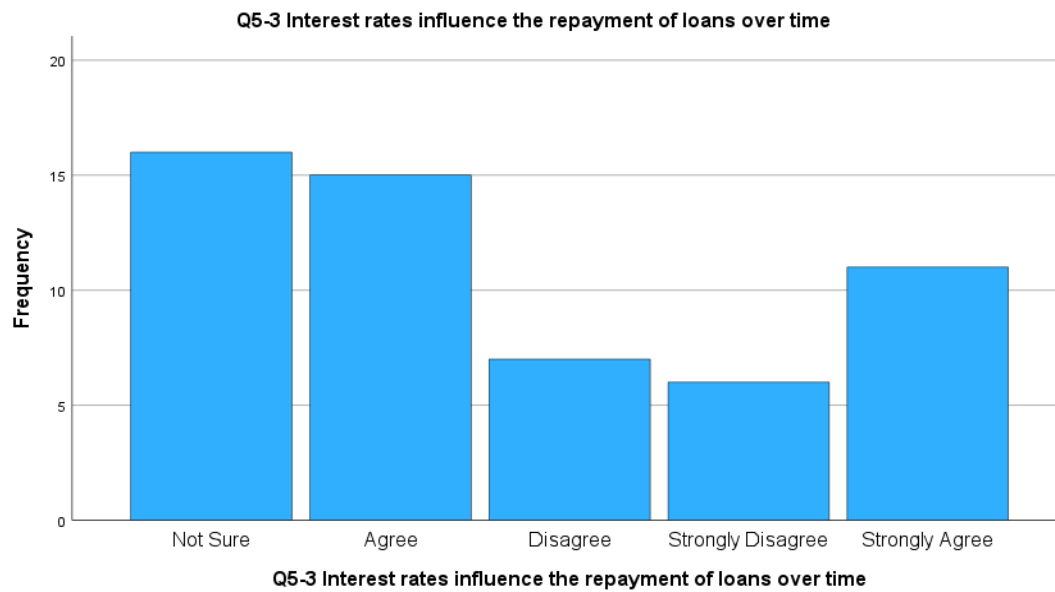
#### 4.2.3 Interest Rates influence the repayment of loans over time

The respondents were asked to rate influence interest rates have on the repayment of loans over time and the findings were as follows:

**Table 4.7 Influence of interest rates on loan repayment over time**

Responses	Frequency	Percent	Valid Percent
Not sure	16	29.1	29.1
Agree	15	27.3	27.3
Disagree	7	12.7	12.7
Strongly Disagree	6	10.9	10.9
Strongly Agree	11	20.0	20.0
Total	55	100.0	100.0

Figure 4.8: A graph showing the responses got in relation to the influence interest rates have on loan repayment over time.



As seen in figure 4.8, 16 of the respondents were not sure of the given information/ statement and yet a total of 26 respondents were in total agreement with 15 respondents agreeing with the statement and 11 strongly agreeing. Despite the majority agreeing that interest rates affect repayment of loans over time, a total of 13 respondents were not in support of the relationship between interest rates and loan repayment with a total of 7 respondents disagreeing and 6 strongly disagreeing to the stated relationship.

#### 4.2.4 Changing interest rate have a direct impact on the demand for loans by customers

The respondents were asked to give their honest opinion using the scale they were given in relation to the assumption that changing interest rates have a direct impact on the demand for loans by customers.

**Table 4.8 Changing interest rate have a direct impact on the demand for loans by customers**

Responses	Frequency	Percent	Valid Percent
Not Sure	13	23.6	23.6
Agree	14	25.5	25.5
Disagree	9	16.4	16.4
Strongly Disagree	5	9.1	9.1
Strongly Agree	14	25.5	25.5
Total	55	100.0	100.0

Figure 4.9. A graph showing the response towards the direct impact changing interest rates have on the demand for loans by customers.

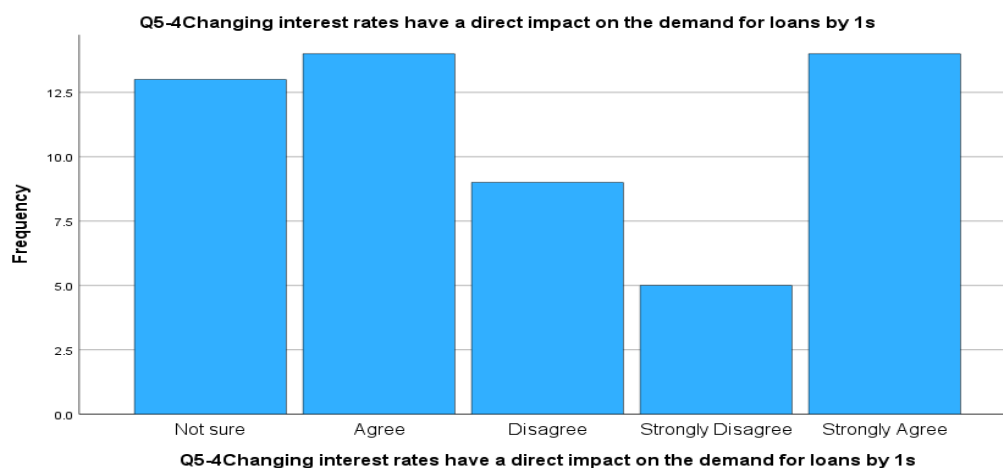


Figure 4.9 shows the results collected for the relationship between the changing interest rates and the demand for loans by customers and it shows that majority of the respondents agreed that changing interest rates have a direct impact on the demand for loans by customers with a total of 28 respondents agreeing with the statement while 13 are not sure, 14 were in total disagreement with the statement.

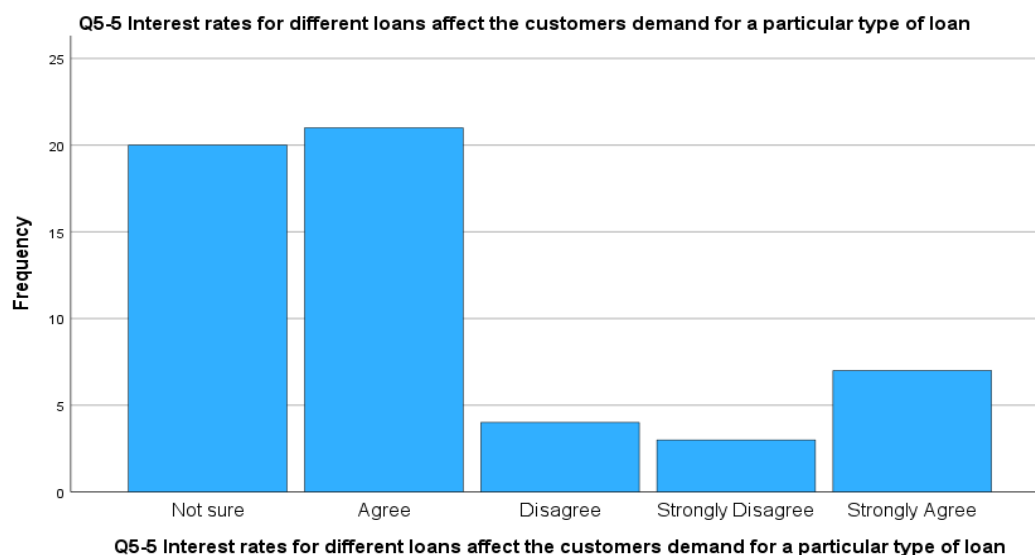
#### 4.2.5 Interest rates for different loans affect the customers demand for a particular type of loan

In addition to the other statements made in relation to current interest rates on loans the respondents were asked to scale their response in relation to the fact that interest rates for different loans affect the customers demand for a particular type of loans and the results collected were as follows:

**Table 4.9 Interest rates for different loans affect the customers demand for a particular type of loan**

Responses	Frequency	Percent	Valid Percent
Not sure	20	36.4	36.4
Agree	21	38.2	38.2
Disagree	4	7.3	7.3
Strongly Disagree	3	5.5	5.5
Strongly Agree	7	12.7	12.7
Total	55	100.0	100.0

Figure 4.10: A graph showing results for the relationship between interest rates for different loans and customers demand for a particular type of loan.



Based on figure 4.10, 20 of the respondents were not certain about the relationship interest rates for different loans and customers demand for a particular type of loan and 21 agreed to the relationship as well as 7 that strongly agreed to the statement while 4 disagreed and 3 strongly disagreed to the relationship between interest rates for different loans and customers demand for a particular type of loan.

### 4.3 Factors affecting customers demand for loans

According to a complete view of the data collected from respondents concerning the factors that affect customers demand for loans the data was analysed and reflected that majority of the responses agreed that the given factors had a great impact/ effect on customers demand for loans and they highly influenced their desire/ demand for loans. The results also gave an insight of the major factors that the company has to look into so as to encourage its customers to demand for more loans without having many factors hindering their access and demand for loans. The respondents were given various

statements that were in relation to the different factors that affect customers demand for loans in Uganda Micro credit Finance that they graded best on the scale they were given.

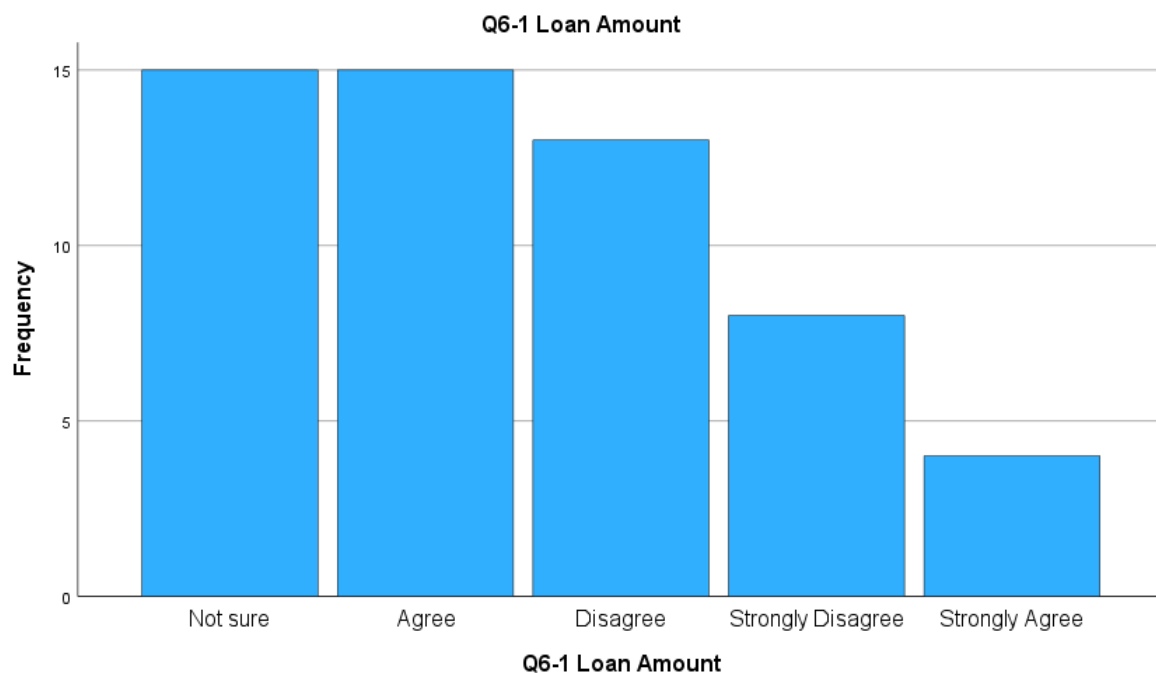
#### 4.3.1 Loan amount

The respondents were asked to rate loan amount as a factor that affects the demand for loans by various customers and the findings from the data collected were as follows:

**Table 4.10 Loan amount as a factor that affects customers demand for loans**

Responses		Frequency	Percent	Valid Percent
Valid	Not sure	15	27.3	27.3
	Agree	15	27.3	27.3
	Disagree	13	23.6	23.6
	Strongly Disagree	8	14.5	14.5
	Strongly Agree	4	7.3	7.3
	Total	55	100.0	100.0

Figure 4.11: A graph showing responses concerning loan amount as a factor that affects customers demand for loans.



Based on figure 11, majority of the respondents amounting to 15 of them gave their responses as not sure while a total of 15 agreed with the statement that loan amount was among the factors that affected customers demand for loans and 4 of the rest strongly agreed despite these, there are also those that did not agree with the statement amounting to 21 with 8 strongly disagreeing and 13 disagreeing. This gave off the impression that loan amount was a factor that partly affected customers demand for loans and partly might not be an influencer as sure.

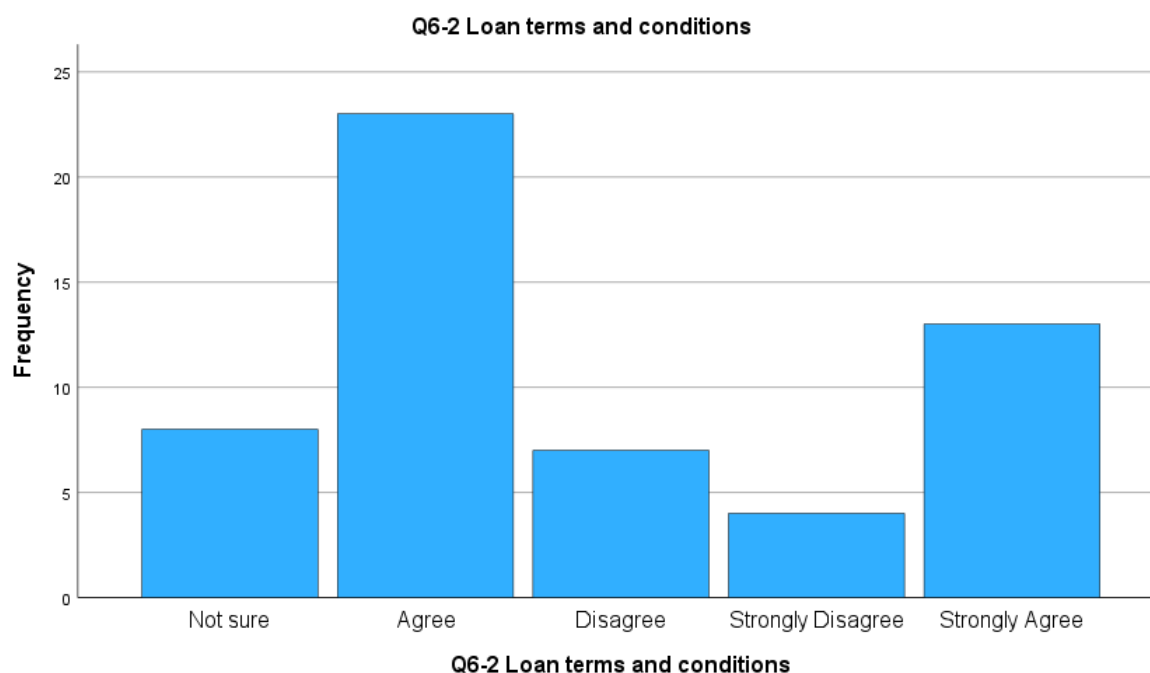
### 4.3.2 Loan terms and conditions

Another factor that was given to the respondents to grade was loan terms and conditions and the findings of the research were as follows:

**Table 4.11**  
**Loan terms and conditions**

Responses		Frequency	Percent	Valid Percent
Valid	Not sure	8	14.5	14.5
	Agree	23	41.8	41.8
	Disagree	7	12.7	12.7
	Strongly Disagree	4	7.3	7.3
	Strongly Agree	13	23.6	23.6
	Total	55	100.0	100.0

Figure 4.12: A graph showing the responses collected in relation to loan terms and conditions being a factor that affects demand for loans



Based on the above information in figure 4.12, over 23 of the respondents agreed and 13 strongly agreed that loan terms and conditions have a great effect on the demand for loans by most of the customers while 4 of the respondents strongly disagreed and 7 disagreed with the given statement not seeing any connection between loan terms and conditions and demand for loans by customers. The rest of the respondents however were not sure as to whether loan terms and conditions had any effect on loan demand. This implied that loan terms and conditions were indeed a factor that affects customers demand for loans.

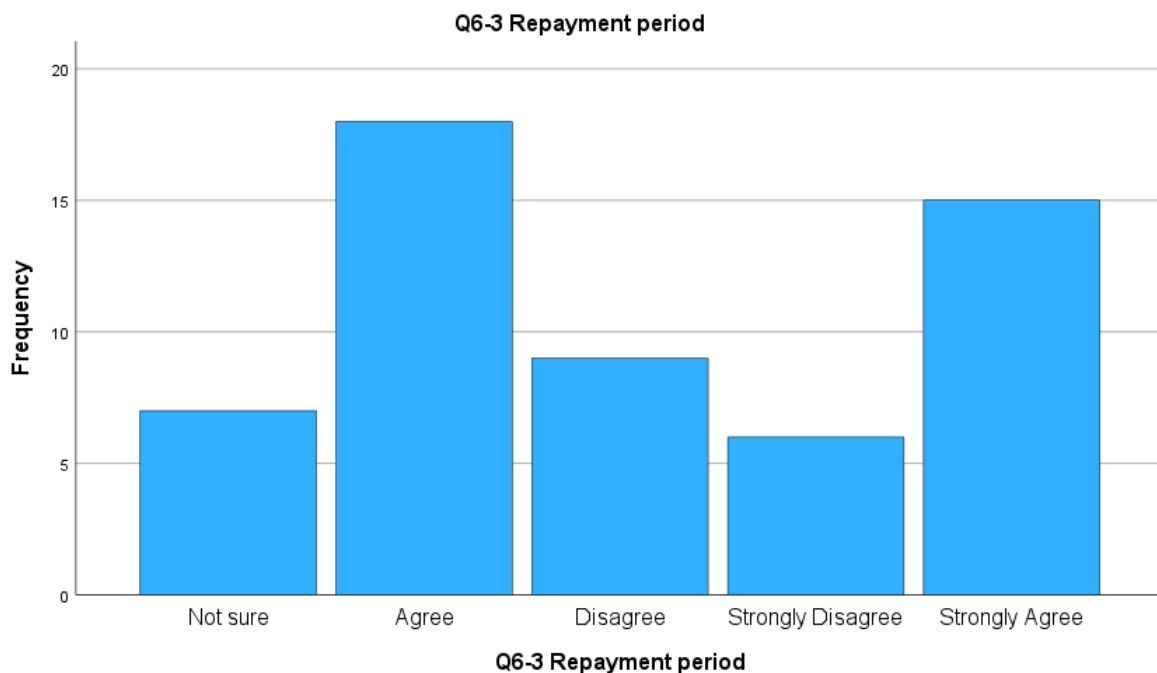
### 4.3.3 Repayment period

Respondents were further asked to give their opinions on the fact that repayment period was one of the factors that affected customers demand for loans and the results collected were as follows:

**Table 4.12 Repayment period**

Responses		Frequency	Percent	Valid Percent
Valid	Not sure	7	12.7	12.7
	Agree	18	32.7	32.7
	Disagree	9	16.4	16.4
	Strongly Disagree	6	10.9	10.9
	Strongly Agree	15	27.3	27.3
	Total	55	100.0	100.0

Figure 4.13: A graph showing the responses got from the repayment period as a factor that affects customers demand for loans.



With a response number of 18 and 15, majority of the respondents agreed and strongly agreed respectively that repayment period was a factor that affected demand for loans and yet a smaller number of 9 and 6 disagreed and strongly disagreed respectively and the rest of the respondents were not sure about the statement. This gave an implication that repayment period as a factor that affects demand for loans is one that has great influence on the customers loan demand.

#### 4.3.4 Inflation levels

Respondents were also asked to rate inflation levels according to the scale they were given as one of the factors that affects demand for loans. The findings were given as follows:

**Table 4.13 Inflation Levels**

Responses	Frequency	Percent	Valid Percent
Valid Not sure	13	23.6	23.6
Agree	14	25.5	25.5
Disagree	14	25.5	25.5
Strongly Disagree	1	1.8	1.8
Strongly Agree	11	20.0	20.0
Blank	2	3.6	3.6
Total	55	100.0	100.0

Figure 4.14: A graph showing responses collected from inflation levels

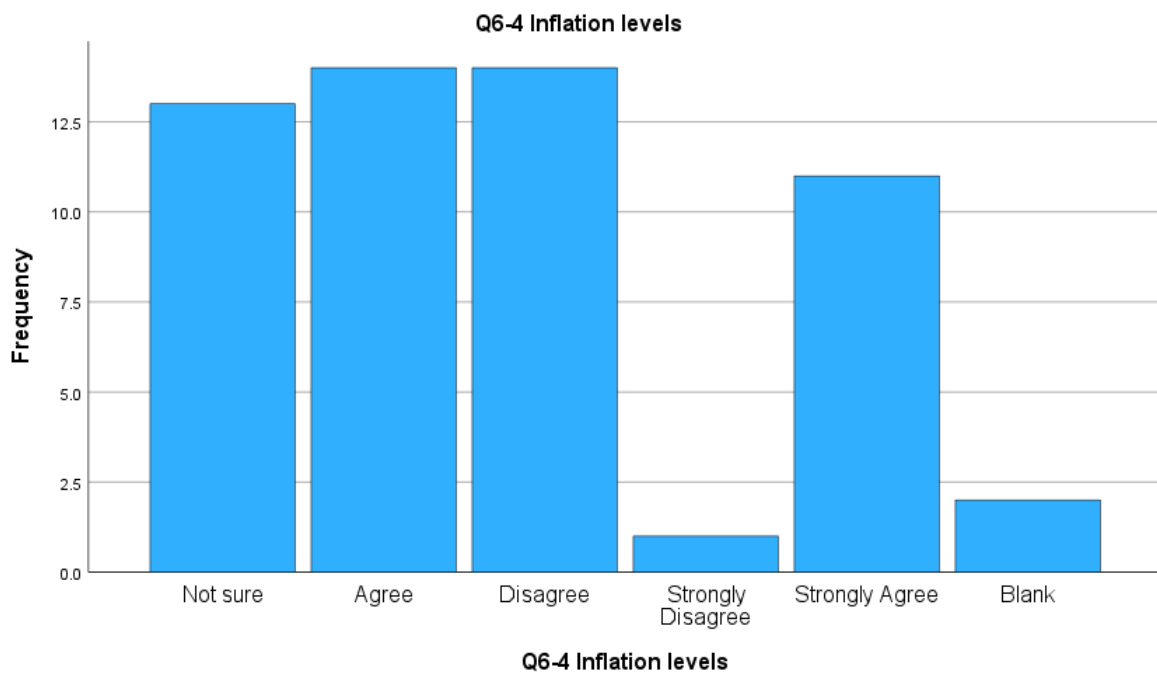


Figure 4.14 clearly shows that 14 of the respondents agreed and 14 of them disagreed that inflation levels had an effect on the loans demanded by customers, despite the rest of the respondents falling under strongly agree, strongly disagree, not sure and blank, based on the analysis of majority of the respondents falling in agree and disagree, inflation levels have a partial effect on the demand level for loans by customers.

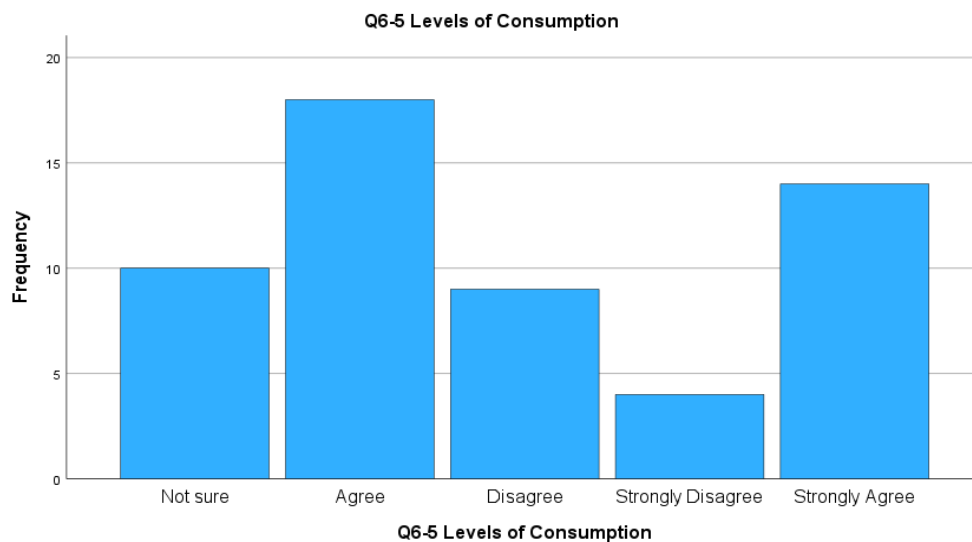
### 4.3.5 Level of Consumption

This is another factor that was put forward to the respondents to grade based on the scale they were given in relation to the factors that affect customer's demand for loans. The results from the data collected were as follows:

**Table 4.14 Level of Consumption**

Responses		Frequency	Percent	Valid Percent
Valid	Not Sure	10	18.2	18.2
	Agree	18	32.7	32.7
	Disagree	9	16.4	16.4
	Strongly Disagree	4	7.3	7.3
	Strongly Agree	14	25.5	25.5
	Total	55	100.0	100.0

Figure 4.15: A graph showing results collected from level of consumption as a factor



According to the above information in figure 4.15, respondents gave their responses based on the scale they were given and majority of the respondents 18 and 14 in number agreed and strongly agreed that level of consumption had an influence on the loans demand by customers and the rest of the customers gave their responses in disagreement to the statement having some 9 in number disagree and 4 strongly disagreeing with the statement while others a number of 10 were not sure. This implied that consumption levels had an effect on the demand for loans by customers and different customers demand for different loans based on their various consumption levels.

## 4.4 Relationship between interest rates and customers demand for loans

### 4.4.1 Interest rates affect customers willingness to repay loans

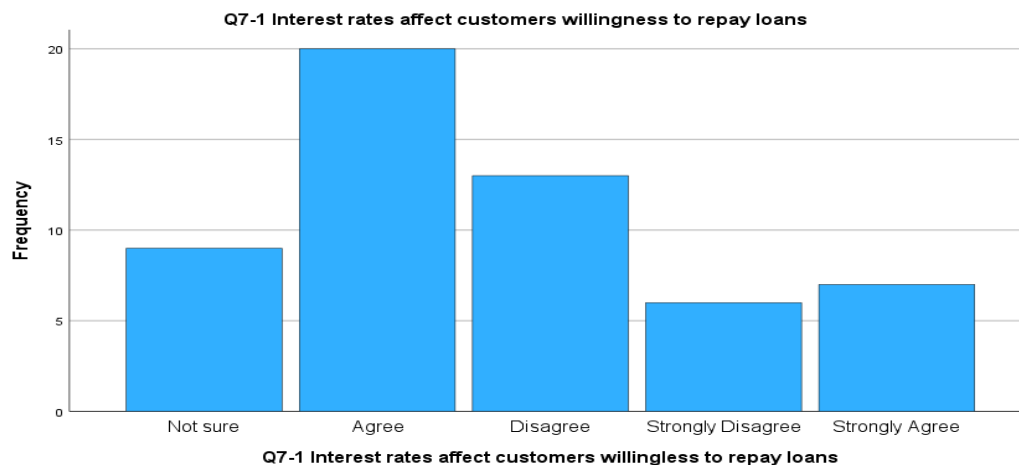
In an attempt to clearly understand the relationship between interest rates and customers demand for loans, the researcher asked the respondents to give their honest opinion about the various relationships they were given that reflect the main relationship between interest rates and demand for loans. In order to achieve her goal, the researcher asked the respondents to grade the relationship between

interest rates and customer’s willingness to repay loans and the grading was done based on the scale they were given. Below are the results,

**Table 4.15 Interest rates affect customers willingness to repay loans**

Responses		Frequency	Percent	Valid Percent
Valid	Not sure	9	16.4	16.4
	Agree	20	36.4	36.4
	Disagree	13	23.6	23.6
	Strongly Disagree	6	10.9	10.9
	Strongly Agree	7	12.7	12.7
	Total	55	100.0	100.0

Figure 4.16: A graph showing the responses in relation to how interest rates affect customers willingness to repay loans.



According to figure 4.16, 27 of the respondents were in complete agreement with the relationship between interest rates and customers willingness to repay loans, with majority of them agreeing to the relationship with a response range of 20 respondents and 7 strongly agreeing to the relationship. This clearly showed that interest rates had an influence on customers willingness to repay loans with the higher responses agreeing to the relationship.

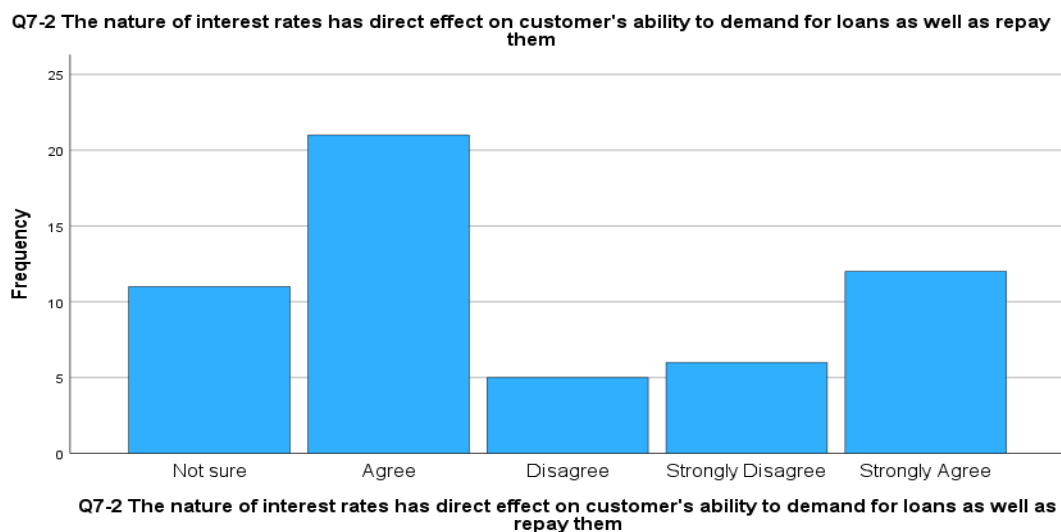
#### 4.4.2 The nature of interest rates has direct effect on customer’s ability to demand for loans as well as repay them.

Respondents were also asked to determine the relationship between the nature of interest rates and the direct effect on customer’s ability to demand for loans. The respondents examined this relationship based on the scale they were given and the results from the data collected were as follows,

**Table 4.16 The nature of interest rates has direct effect on customers’ ability to demand for loans as well as repay them.**

Responses		Frequency	Percent	Valid Percent
Valid	Not sure	11	20.0	20.0
	Agree	21	38.2	38.2
	Disagree	5	9.1	9.1
	Strongly Disagree	6	10.9	10.9
	Strongly Agree	12	21.8	21.8
	Total	55	100.0	100.0

Figure 4.17: A graph representing the findings of the nature of interest rates having a direct effect on the customer’s ability to demand for loans as well as repay them.



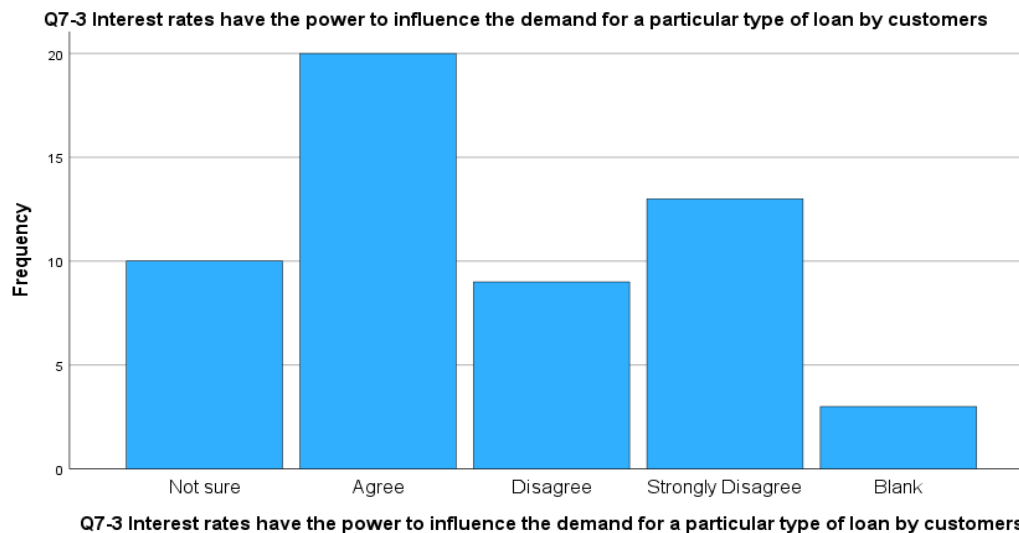
With a response capacity in figure 4.17, of 21 respondents agreeing to the relationship between nature of interest rates and direct effect on customer’s ability to demand for loans and 7 of the respondents strongly agreeing to this relationship as well and with a low disagreement rate of 11 responses over the agreement rate of 33 respondents, results clearly showed that the nature of interest rates had a direct effect on the customers demand for loans and therefore customers can highly demand for a particular type of loan because of the nature of the interest rates.

4.4.3 Interest rates have the power to influence the demand of a particular type of loan by a customer.

**Table 4.17 Interest rates have the power to influence the demand of a particular type of loan by a customer.**

Responses		Frequency	Percent	Valid Percent
Valid	Not sure	10	18.2	18.2
	Agree	20	36.4	36.4
	Disagree	9	16.4	16.4
	Strongly Agree	13	23.6	23.6
	Blank	3	5.5	5.5
	Total	55	100.0	100.0

Figure 4.18: A graph representing the power interest rates have to influence the demand of a particular type of loan by a customer.



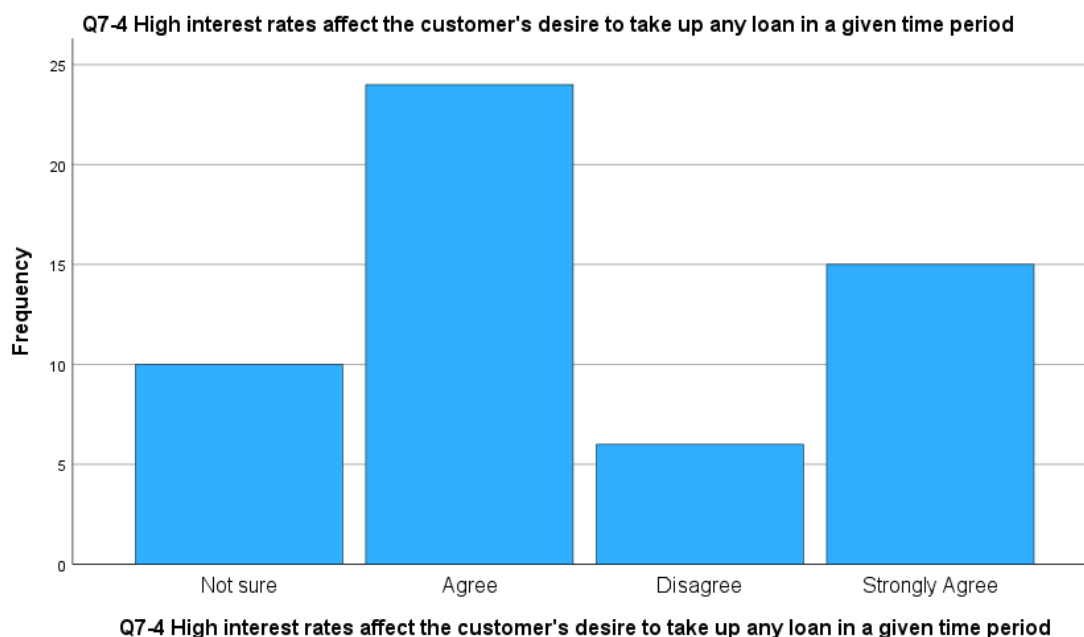
According to figure 4.18, 33 of the respondents were in high agreement with the relationship/ power that interest rates had to influence the demand for a particular type of a loan by customer thus implying that the movement/ nature of the interest rates can negatively or positively affect the demand for a type of loan by customers.

4.4.4 High interest rates affect the customers desire to take up any loan in a given time period  
 The respondents were asked to rate the relationship between high interest rates and customers desire to take up any loan at a given time period and the results were as follows:

**Table 4.18 High interest rates affect the customers desire to take up any loan in a given time period**

Responses		Frequency	Percent	Valid Percent
Valid	Not sure	10	18.2	18.2
	Agree	24	43.6	43.6
	Disagree	6	10.9	10.9
	Strongly Agree	15	27.3	27.3
	Total	55	100.0	100.0

Figure 4.19: A graph showing how high interest rates affect the customer’s desire to take up any loan in a given time period



According to figure 19; 24 of the respondents agreed to the relationship between high interest rates and customers desire to take up any loan in a given time period while 15 of them strongly agreed to the relationship and another portion of the respondents disagreed to the relationship while 10 of the respondents were not sure. This implies a total agreement level of the respondents being high and this clearly shows that high interest rates affect customer’s desire to take up any loans.

#### 4.4.5 Customers are willing to borrow more when interest rates are low

Respondents were also asked to rate the willingness customers have to borrow more when interest rates are low based on the scale they were given and the results from the respondents were as follows:

**Table 4.19**  
**Customers**  
**are willing to**  
**borrow more**  
**when interest**  
**rates are low**

Responses		Frequency	Percent	Valid Percent
Valid	Not sure	8	14.5	14.5
	Agree	26	47.3	47.3
	Strongly Agree	21	38.2	38.2
	Total	55	100.0	100.0

Figure 4.20: A graph showing customer’s willingness to borrow more when interest rates are low

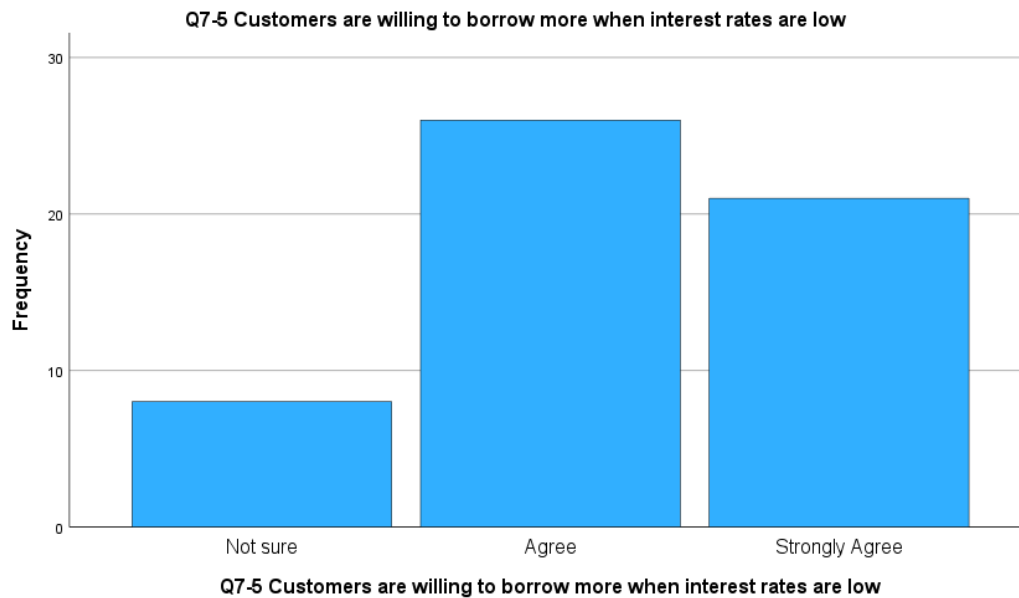


Figure 4.20 clearly shows that 26 and 21 agreed and strongly agreed to the fact that customers are willing to borrow more when interest rates are low as compared to when they are high and 8 of the customers were not sure about the influence low interest rates had on customers demand for loans. Based on the high agreement rate, this was evident that most of the customers are so much willing to borrow more money when interest rates are low.

#### 4.4.6 Customers are reluctant to borrow when interest rates are high

The respondents were asked to grade the relationship between customer’s ability to borrow when interest rates are high that is to say the relationship between borrowing capacity and high interest rates and the results were as follows:

**Table 4.20 Customers are reluctant to borrow when interest rates are high**

Responses		Frequency	Percent	Valid Percent
Valid	Not sure	12	21.8	21.8

Agree	21	38.2	38.2
Disagree	5	9.1	9.1
Strongly Agree	17	30.9	30.9
Total	55	100.0	100.0

Figure 4.21: A graph showing that customers are reluctant to borrow when interest rates are high

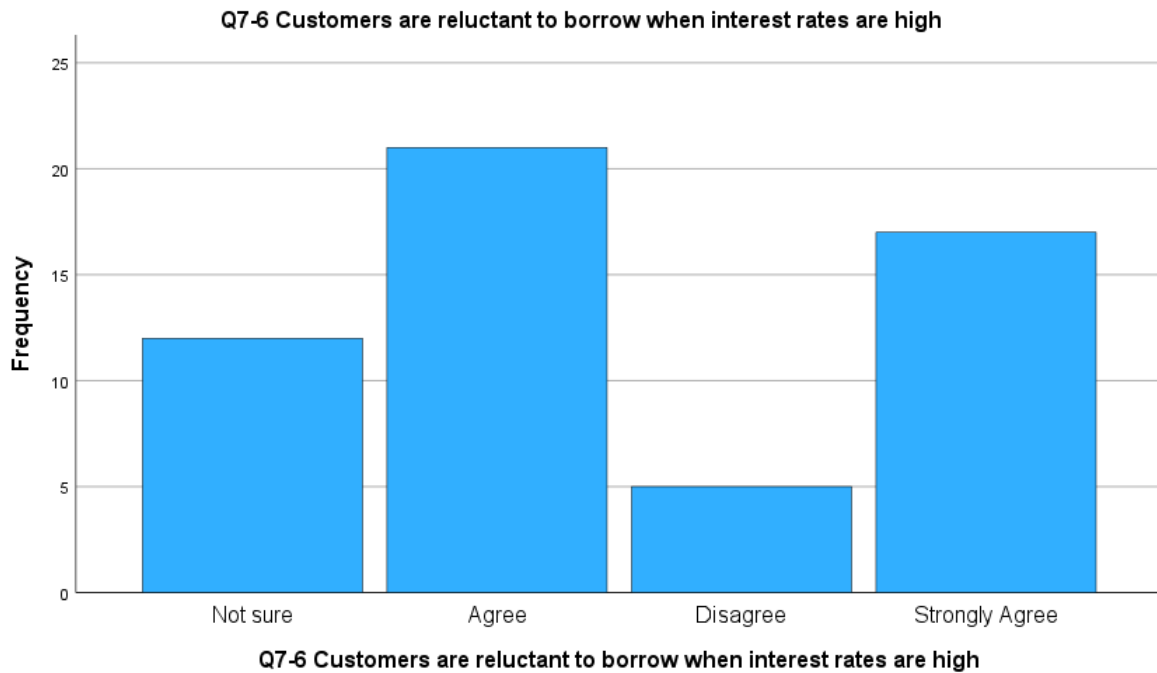


Figure 4.21 clearly shows 21 of the respondents agreed and 17 strongly agreed with the relationship between high interest rates and the low demand for loans by customers and 5 disagreed to the relationship between the two and 12 of them were not sure about the relationship. Due to the information given, the high agreement response showed that majority of the customers do not demand loans when interest rates are high.

#### 4.5 Other factors affecting the customer's demand for loans

Respondents were asked to give any other factor that they were aware of affects customer's demand for loans other than the factors that were given by the researcher so as to give a clear view of other factors that negatively or positively affect one's demand for loans at a particular time and can at some times hinder or promote the desire for loans among customers. The data was collected and responses were given as follows:

**Table 4.21 Customers that said yes to knowing other factors that affect demand for loans**

Responses	Frequency	Percent	Valid Percent
Valid Yes	20	22.5	36.4

	No	35	39.3	63.6
	Total	55	61.8	100.0
Total		55	100.0	

Figure 4.22: A graph showing customers that said yes to knowing other factors that affect demand for loans

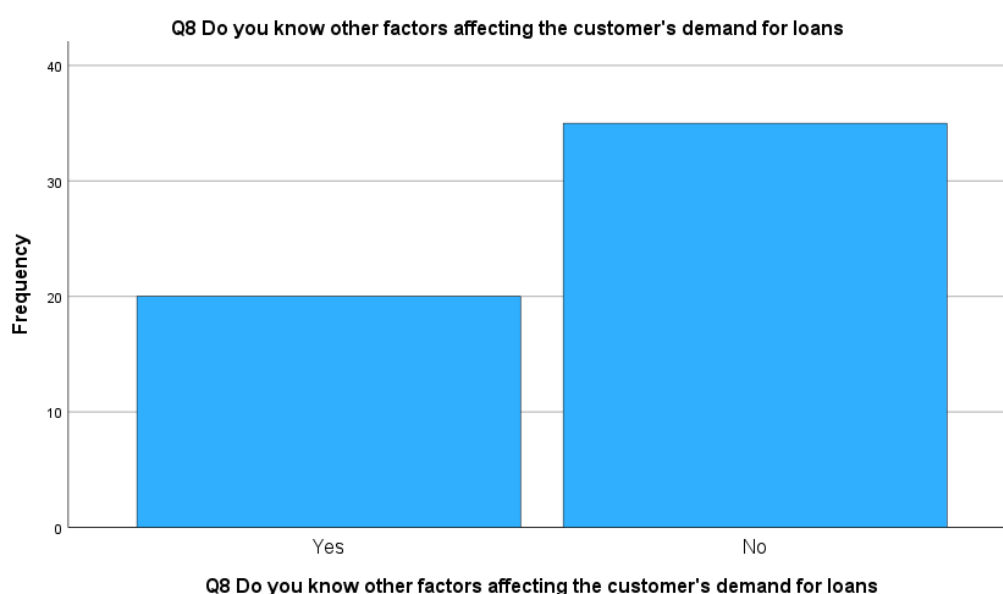


Figure 4.22 indicates that 20 of the respondents gave their response as yes to knowing other factors that affect customers demand for loans other than those the researcher gave while 35 of the respondents did not know any other factor that affects customer's demand for loans.

#### 4.5.1 Other factors affecting the demand for loans by customers

Respondents came up with other factors that affect demand for loans by customers as they were asked to mention any that they knew away from the ones they were given by the researcher. The data was collected and the findings were as follows:

**Table 4.22 Other factors affecting the demand for loans by customers**

Responses		Frequency	Percent	Valid Percent
Valid	Collateral	5	5.6	9.1
	Expectations of the future	3	3.4	5.5
	NIL	35	39.3	63.6
	Investment desire	6	6.7	10.9

Employment rate	4	4.5	7.3
Blank	2	2.2	3.6
Total	55	61.8	100.0
Total	55	100.0	

Table 4.6.2 clearly shows some of the other factors that the respondents gave in relation to other factors that affect the demand for loans by customers. 5.6% of the respondents gave collateral as one of the other factors that affect customers demand for loans while 6.7% of them gave investment desire as another and 4.5% gave employment rate as another and finally 3.4% gave expectations of the future and 2.2% left it blank while 39.3% gave their answer as nil. Due to the above analysis, majority of the respondents that gave other factors affecting demand for loans gave investment desire and collateral as the major other factors that affect customers demand for loans.

## **CHARTER FIVE**

### **SUMMARY OF THE MAJOR FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.0 Introduction**

This chapter presents a summary of the key findings of the study. It presents a summary of the discussions, conclusions and recommendations of the study as well areas that were highlighted by the researcher that needed further research.

#### **5.1 Summary of the major findings**

The main aim of the study was to examine the impact of changes in interest rates on the demand for loans by customers of Uganda Micro credit Finance (UMF) in seeta trading center. Primary data was collected with the aid of questionnaires and analysis of the two variables was done. Due to the analysis, the following findings about the specific objectives were obtained.

According to the data collected, indications showed an 84.4% relationship between interest rates and the borrowing capacity of the customers in financial institutions especially the customers of UMF. As 78% of the customers agreed that movement of interest rates highly affect customers demand for loans and majority of the customers tend to demand more loans when interest rates are low and when interest rate increase then customers are reluctant to take on any loans.

At a response rate of over 80% of the respondents agreed that customers responsiveness to demand for loans changes when interest rates are changed meaning that when interest rates increase, then customers demand for loans reduces and this endangers the process for Uganda Microcredit Finance as a financial institution and therefore it needs to put in to consideration customers responses when it comes to inflation of interest rates while when interest rates are low, over 70% of the respondents agreed that customers demand more loans .

Respondents provided other reasons that affect customers demand for loans other than interest rates or any that was mentioned by the researcher and various factors were brought up by the respondents with a response rate of 6.7%, investment desire was one of the key factors followed by collateral among others that respondents outlined as factors that can also determine a customer's demand for loans and the amount of loan borrowed.

Generally, 95% of the respondents agreed that fluctuations in interest rates can affect customers demand for loans and therefore interest rates should be changed in a way that better benefits both the customer and the financial institutions as well so as to keep encouraging customers to borrow and pay back in time to avoid bad debts as well keep a good relationship with clients.

## 5.2 Conclusions

The study concluded that changes in interest rates can either negatively or positively affect customers demand for loans and interest rates need to be regulated properly to ensure that they don't negatively affect the organization as well as its clients as they have a very high influence on customers demand for loans and the amounts demanded. Therefore, proper management of interest rates help the organization encourage more credit offers to clients encouraging them to borrow more.

The study also concluded that other than interest rates, repayment period and loan terms and conditions, they are other factors that actually affect the demand for loans that the organization has to put into consideration like investment desire, expectations of the future among others. The organization needs to come up with ways to go round them as they can also become a major issue when it comes to demands for loans if not sorted at an early stage. For example, if customers start to predict the future interest rates and predicate them accurately by 82% then they will base their demand for loans on their predications other than the organizations interest rates.

The study also concluded that majority of the customers are quite responsive to the movement in interest rates and they are a major factor or main factor that determines the demand for loans and loan amount in other words, customers look at interest rates as a major determinant when it come to the question of whether not to borrow or borrow money. Therefore, organizations need to be very careful when it comes to adjusting interest rates to meet their profit targets.

## 5.3 Recommendations

Management Uganda Micro Credit Finance should carry out massive employee training when it comes to collecting funds from other sources other than credit given out so as to avoid fluctuating interest rates to a point of irritating customers and discouraging them from borrowing with the aim of collecting funds to finance the institution's operating costs. It should also give them proper training in relation to the new advancements in technology that can help the organization better manage credit as well keep an insight on customers view about the fluctuating interest rates for better.

Other than the set or predetermined factors that affect customers demand for loans, financial institutions also have to learn to put more consideration on other factors that affect customers demand for loans such as regulations, investment desire, expectations of the future among others.

Financial institutions also need to come up with interest rate policies that manage fluctuating interest rates and implement them in a way that does not damage the institutions financial status that they can use to ensure efficiency and effectiveness.

## 5.4 Areas for further research

Further research can be conducted on how credit is effectively managed by financial institutions like SACCOS and if there are any regulations that the government of Uganda need to notice or put in place to monitor the success of SACCOS.

Further research needs to be conducted on ICT applications or software that have come up to easy transactions over various countries like the Real Time Gross Settlement system (RTGS) or the Electronic Fiscal Transfer systems (EFTs).

Lastly further research needs to be done on government regulations toward micro financial institutions and how these regulations have affected the financial performance of the upcoming and already existing financial institutions.

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## APPENDIXES

### QUESTIONNAIRE

Dear respondent,

I am **Jacinta Namubiru** a student of **Uganda Christian University, Mukono** pursuing a Bachelors' degree in Business Administration. I am currently conducting research in relation to changes in interest rates and customers' demand for loans. This research is purely for study purposes and the information given will be treated with utmost confidentiality. I therefore humbly request you to spare some time and answer the following questions. Thank you for your time.

#### Instructions:

Tick or write answers in full where need be.

#### **SECTION A: GENERAL INFORMATION**

1. Gender
  - a) Male
  - b) Female
  
2. Age Group
  - a) 20-29
  - b) 30-39
  - c) 40-49
  - d) 50 and above
  
3. Marital Status
  - a) Single
  - b) Married
  - c) Others
  
4. Occupation  
.....

#### **SECTION B: Current Interest rates on loans**

5. On a scale of 1-5 tick in the appropriate box on how you strongly agree or disagree with the statements given on the current interest rate on loans in Uganda Microcredit Finance Seeta branch.

Scale	1	2	3	4	5
-------	---	---	---	---	---

	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
--	----------------	-------	----------	----------	-------------------

Statement	1	2	3	4	5
Interest rates change over time					
Most customers are sensitive to loan interest rates					
Interest rates influence the repayment of loans over time					
Changing interest rate have a direct impact on the demand for loans by customers					
Interest rates for different loans affect the customers demand for a particular type of loan					

### SECTION C: FACTORS AFFECTING CUSTOMERS DEMAND FOR LOANS

6) On a scale of 1-5 as used in the above sections, tick in the appropriate box how you strongly agree, agree, not sure, disagree, or strongly disagree with the following factors affecting customers demand for loans.

Factor	1	2	3	4	5
Loan amount					
Loan terms and conditions					
Repayment period					
Inflation Levels					
Levels of consumption					

### SECTION D: RELATIONSHIP BETWEEN INTEREST RATES AND CUSTOMERS DEMAND FOR LOANS

7) On a scale of 1-5 as used in the above sections, tick in the appropriate box how you strongly agree, agree, not sure, disagree, or strongly disagree with the following statements showing the relationship between interest rates and customers' demand for loans

Statement	1	2	3	4	5
Interest rates affect customers willingness to repay loans					
The nature of interest rates has direct effect on customers ability					



## 2 INTRODUCTION LETTER



**UGANDA CHRISTIAN  
UNIVERSITY**

A Centre of Excellence in the Heart of Africa

**SCHOOL OF BUSINESS**

1<sup>st</sup> Aug 2023

TO WHOM IT MAY CONCERN

Name: NAMUBIRU JACINTA Reg. No. S19B05/304

A bachelor's student who is seeking permission from your office to collect data for his/her dissertation titled

"CHANGES IN INTEREST RATES ON THE DEMAND FOR LOANS BY CUSTOMERS OF UGANDA MICRO CREDIT FINANCE (UMF) ."

We shall be grateful if you could render assistance to him/her in collecting the necessary data for his/her dissertation

The Uganda Christian University School of Business thanks you in advance

A handwritten signature in blue ink, appearing to read 'Mukisa Simon Peter'.

Mukisa Simon Peter  
Research coordinator