

**RISK MANAGEMENT STRATEGIES AND LOAN DEFAULT RATES IN  
FINANCIAL INSTITUTIONS IN UGANDA :A CASE STUDY OF DFCU BANK  
MUKONO BRANCH**

**FAITH CHRISTINE NASSOZI**

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**A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT  
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**UGANDA CHRISTIAN  
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**DECLARATION**

I **NASSOZI CHRISTINE FAITH** hereby declare that this research dissertation is strictly my own work and has never been presented for award in any other institutions.

Signature:.....

Date:.....

**NASSOZI CHRISTINE FAITH**

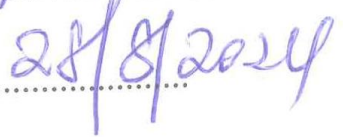
**S21B33/040**

**APPROVAL**

This paper has been submitted for examination with my approval.

Signature.....

**Mr. KISENYI VINCENT**

Date.....

## **DEDICATION**

I sincerely dedicate this project report to my beloved parents Mr. and Mrs. Galabuzi, their unwavering love, tireless support, and encouragement have been my driving force throughout my academic journey, not forgetting my colleagues who helped me through, my Academic Supervisor Mr. Kisenyi Vincent. May God above all things bless all of you and open brighter doors for you in this world.

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## ABSTRACT

The study examined risk management strategies and loan default rates of financial institutions in Uganda a case study of DFCU Mukono branch in Mukono district and was guided by the objectives; To Evaluate how credit monitoring strategy in the reduction of loan default rates in DFCU bank. To examine how do credit risk management practices/ strategy help to control loan defaults in DFCU bank. To analyze the credit recovery strategy in the management of loan default in a bank

The study adopted a descriptive survey research design which involved the use of self designed questionnaire in the collection of data. For the purpose of this study the researcher used Mukono branch as her case study which had a population of 35 as stated by DFCU bank Mukono Branch manager. The researcher used a simple random sampling technique for this study because it gave an equal chance to each individual in the population chosen to be the sample actually selected.

According to the findings, this study also recommends that banks carry out the following; these are actions, some of these in combination with conventional. For instance, innovative management practices to eliminate risks in the unsecured lending business techniques which have saving deposits against the loan taken policies. Existing borrowers are rewarded for early repayments by future provision of larger loan, routine repayment of the loans in a group meeting where such payments are made. Penalties for defaults on payment by way of late fees, more repayment give rise to more borrowing or discretion periods and educating clients on the literate individuals of the clients, these include; often primarily in the range of three months to one year period gross short loan. They are able to find out on a regular basis what works for the financial institutions an what does not. Which means they are ready to put in change and improvements. Also the board of director has a possibility to hire consultants and other skilled experts in service in product development and introducing effective corporate governance minimum requirements and experience on lending as the business of the financial institution is to lend to the poor

# CHAPTER ONE

## INTRODUCTION

### 1.0 Introduction

This chapter presents the background of the study, the problem statement, research Objectives, and research questions, scope of the study, significance of the study and justification of the study. This Raises the issue of how best to implement the management strategies in order to reduce on loan default rates called for an investigation for this study. However, this is not necessarily an easy task as investigations will be conducted.

### 1.1 Background of the Study

In the past very few years of this decade, the majority of the financial institutions, or at least almost all, never cared so much in investing time, resources and efforts in the timely recovery of credit and reducing non performing assets nowadays they do. The attention to financial institutions has a much longer history within both the operational frameworks of the aid agencies and the aid recipient's governments. The risk management concepts took prominence from the developed nations after world war years before it hit developing nations after world war years before it hit developing nations largely in Africa for non performing loans, In Italy, it was established that the aggressiveness in business concentrates loan assets increased due to poor policy economic decision. According to their general published in international financial law by Wagoki Juma and Kamau John (2012) in June (2003 talked about the Chinese banks on the issue of default rates and in other banks like Shanghai bank still in China yet they had strategies and this calls for more investigation on why the default rates Increases day by day despite of strategies in place Since this issue has spread. risk management has been associated with the use of market insurers to protect individuals and companies from various losses associated with accidents (Harrington and Neihuaus 2003), In 1989 crock ford wrote "Operational convenience continues to dictate that pure and speculative risks should be handled by different functions within our company, even though theory may argue for them being managed as one. For Practical purposes, they are for the emphasis of risk management continues to be on pure risks". In the remark, Speculative risks were more related financial risk, during that time, there was no emphasis on risk management and many companies operated according to their wish. New Forms of risk management emerged during mid 1950s as alternatives to market insurance when different types of insurance Coverage became very

costly and incomplete. In 1960s, contingency planning activities were developed and various risk prevention activities and self insurance instruments against some losses were discussed.

Financial statements are seen as crucial to development of firms and other institutions in the third world (Marguerite 2001). International organizations are coming to the realization that financial institutions Are available and effective channels to ensure program implementations, effectiveness, particularly in poverty alleviation Projects and financial knowledge of the needs an interest of the poor (Okumadewa 1998). According to Chossudovsky (1998), The World Bank sustained banks with poor projects(SBP) In mid 1996 an estimated that there were more than 1000 financial institutions over 100 countries, each having a minimum of 1000 members and with experience of 3 years.

The business entity can also be defined as a financial institution, which is composed of aggregation of speaking individuals, group, small and medium enterprises, where there is provision for not only loans to advance business ventures, but also the offering of diverse services related to savings, insurance, and investment and even training programs. The same is applicable to defaults in repayments of loans since these are core assets of all institutions, the most profitable spheres of operation and primary reasons of establishment of the institution in the first place, therefore, defaulted loans were not qualitative by the standards of portfolio quality type. (Amajo 2010, wavamuno 2011).

The Issue of loan default among banks and microfinance institutions has been discussed in many public studies and for us on the reasons why commercial banks have not shown much interest in financing micro, small and medium enterprises, according to Balogun Alimi (2009), loan defaults can be defined as the inability of a borrower to fulfill his or her loan obligation when due. High default rate in micro, small and medium enterprises lending should be of major concern to policymakers in the developing countries especially in African countries like Uganda, Kenya, Tanzania, Nigeria because of its unintended negative impact on Micro, small and medium enterprises financing. microfinance institutions all over the world including Uganda are faced with the challenge of loan default.

The chance that a financial institution may not receive its money back from borrowers plus Its interest is the most common an often the most serious vulnerability in financial institutions (warue 2012) According to her, since most of my clients are unsecured Default can quickly spread from a

handful of loans to a significant portion of the portfolio. This contagious Effect is worsened by the fact that microfinance portfolios often have a high concentration in certain Business sectors. consequently, many clients may be exposed to the same external threats such as lack of demand for client's products, livestock disease outbreak, bad weather and many more. These factors create volatility in micro loan portfolio quality, heightening importance of controlling credit risk, in this regards, financial institutions Need a monitoring system that highlights repayment problems clearly and quickly, so that loan officers and their supervisors can focus on delinquency (repayment rate) Before it gets out of hand. In lending services, a default is the failure to pay back a loan.

Financial institutions in Uganda are governed by the Companies Act, the banking act, the central Bank of Uganda act, and the various prudential guidelines issued by the central Bank of Uganda. The banking sector was liberalized in 1990s. the Bank of Uganda is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. as of now, there were 24 commercial banks and nonbank institutions. Out of 24 commercial banks,33 were locally owned and 12 were foreign owned. the locally owned financial institutions comprised 3 banks with significant government shareholding and 28 privately owned commercial banks (BOU 2009).

## **1.2 The Problem Statement**

The sustainability of financial institutions depends largely on their ability to collect their loans as efficiently and effectively as possible, better management of credit risk management and defaults results into better performance of the bank thus, so financial statements should safe guard Their assets and protect the investors interest.in other words, financial institutions must ensure high portfolio quality based on 100% repayment or at worst low default and effective lending. what is not known is why financial institutions still experience the challenges of learned defaults yet there are strategies in place their credit risk management, liquidity management, policies and procedures also within strategies. unless the above strategies are well handled and implemented well, the default rate will cease to be no more an issue. In Uganda, many financial institutions have issues regarding higher rate of default by their clients, which presupposes that most financial institutions are achieving the internationally accepted standard portfolio at risk of 3% which is a cause for concern because of its consequences on business, individuals, and the economy of Uganda hence the study into the causes and strategies to reduce loan default in financial institutions in Uganda.

### **1.3 Purpose of the Study**

The purpose of the study was to examine risk management strategies and loan default rates of financial institutions in Uganda. This is through Understanding effectiveness and this is to assess the effectiveness of current risk management strategies in mitigating loan defaults. The Research was equally significant because it would also inform policy and practice this was to provide insights and recommendations to policymakers and financial institutions for improving risk management frameworks. The purpose of the study was to also improve financial stability in DFCU bank Mukono branch this would enhance financial stability and performance of institutions by reducing incidence of non performing loans.

### **1.4 General Objective of the Study**

The general objective of the study is to examine risk management strategies and loan default of financial institutions in Mukono municipality in Uganda.

#### **1.4.1 Specific objectives of the study**

The specific objectives of the study are;

- i. To examine how credit risk management strategies, help to control loan defaults in DCU bank
- ii. To evaluate credit monitoring strategies in the reduction of loan default rates in DFCU bank.
- iii. To analyze the credit recovery strategy in the management of loan default in a bank.

### **1.5 Research Questions**

The study seeks to address the following research questions

- i. How do risk management strategies impact loan default rates in financial institutions?
- ii. What specific credit risk management practices are most effective in reducing loan default rates?
- iii. How do market risk management strategies influence loan default rates?

### **1.6 Scope of the Study**

#### **1.6.1 Geographical scope**

Th study will be carried out in Mukono central division, Mukono town council, Located in central Uganda.

### 1.6.2 Content scope

The research is to examine risk management strategies and loan default rates in financial institutions in Uganda. This is due to high loan default rates in DFCU bank Mukono branch hence a research gap to fill.

### 1.6.3 Time scope

This study will be undertaken from May to August of 2024. This period was chosen because the study is mainly for academics and a deadline of August, 2024 was given, for submission and grading.

## 1.7 Conceptual Framework

The conceptual framework describes the various variables that are in the independent variable (risk management strategies) and the dependent variable (loan default rates) in the study.

**Figure 1: conceptual framework**

### Independent variable

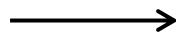
Risk management strategies

### dependent variable

Loan default rates

#### **Risk management strategies.**

- Credit monitoring
- Credit risk management strategy
- Loan diversification



#### **Indicators of loan defaulters**

- Avoid administration
- Deposits tend to reduce on borrowers accounts
- Change of accounts to other banks in case of salary deposits

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter reviews documents and literature related to risk management strategies and loan default rates in financial institutions. Most of the literature on credit has been constraints facing women in accessing credit, their experiences with credit, but little has been investigated in relation to management strategies and default rates (Mukoda 2020). It is therefore the aim of this study to investigate into the strategies to reduce on default rates focusing on credit monitoring, credit culture, loan policy and procedures, loan diversification, credit criteria and debt recovery strategies. However, the literature is general and relative and does not adequately address the pertinent issues regarding the particular problem under study.

#### **2.1 Definitions of the Key Concepts**

Risk involves the chance that there will be an occurrence or an event or nothing will happen but it is something that cannot be seen as wholly positive or wholly negative. Two basic risks can be identified in the context of financial services; systematic and unsystematic risk. (Kannan, N.,and N. Thangavel,2019), Rowe, T. And J. Kim, 2018.

Risk management refers to a scheme, which the executive management implements upon the supervision of the board in which risks arising out of the business are ranked and action plans to avoid, control or take ‘fire fighting’ action are developed.

Loan recovery is the collection of loans that additional loans have been made to repay from borrowers who are not willing to pay what is owed them and convincing them to try and pay back the money they owe.

Typically, recovering loans is a difficult undertaking since clients will go out of their way to make themselves invisible to the lender (bank). In most situations, the banking industry maintains a debt recovering unit in charge of monitoring loans before they become delinquent and making measures to recover them (Garber,2020).

Credit risk; The act of extending credit facilities or loan advances by financial institutions is a highly technical topic, with most companies attempting to assess the clients ability to repay the given funds and accrued interest. Managers face this very sensitive responsibility and make

decisions based on variables that may not accurately reflect the situation on the ground. (Mirzai, Nazari and Bagheri (2021).

Micro finance institutions (MFIs). Are institutions that offer microfinance to individuals or groups who are interested. Their loans are backed by savings and commercial debt. Management strategies include the development and implementation of important plans and goals.

Beck et al. (2020) defines management strategy as a future oriented concept that describes the relationship between a firm and its environment and guides decision making in the industry. Additionally, Goffman (2023) suggests that group members collectively guarantee loan repayment and access to future loans if all members repay successfully.

Group lending is a strategy used by both commercial and noncommercial banks to advance loans to individuals in a group.

In summary, risk management strategies are strategies, methods, procedures and policies employed by both financial and non-financial institutions to reduce or if not mitigate on borrowers who fail to repay or clear their debts/ loan, according to my opinion.

According to Ansoff, strategy is a common threat that defines the ultimate character of a corporation or firm and its future intentions. Thus, a strategy focuses on the organizations intended direction. A company strategy is thus the management action plan for the efficient operation of the business.

## **2.2 Relationship Between Risk Management Strategies and Loan Default Rates in DFCU Bank.**

The present associations between risk management techniques and loan default rates at DFCU Ban in Uganda shows that strong risk management procedures have a significant impact on loan defaults. DFCU Bank has implemented comprehensive credit risk management frameworks that include thorough credit appraisals, market risk analysis, and preventive control mechanisms. These measures have helped the bank maintain lower default rates by carefully assessing borrower risk and monitoring loans throughout their lifecycle. Recent studies and reports highlight that effective credit risk management is crucial for improving loan performance and financial stability in Ugandan banks, with institutions like DFCU demonstrating better loan outcomes through these strategies (Mdpi, 2023; DFCU Bank, 2024). This proactive approach not

only mitigates potential losses but also enhances the bank's overall financial performance and resilience in a challenging economic environment.

### **2.3 Credit Monitoring Strategy and Loan Default Rates in Financial Institutions**

As of 2024, DFCU Bank in Uganda employs a multifaceted credit monitoring strategy to manage and mitigate loan defaults. The bank emphasizes stringent credit assessment procedures, regular monitoring, and the use of credit reference bureaus to track customer credit histories. This comprehensive approach is complemented by initiatives such as the "Ggwa Mu Bintu" campaign, which offers unsecured personal salary loans with flexible repayment terms and preferential interest rates for certain segments. Monitoring your credit ensure that the bank understands the borrowers current financial condition and this ensures that all credit are in compliance with the existing covenant, follow the use of approved credit lines by the customer, ensure that projected cash flows on major credits meet debt serving requirements, ensure that, where applicable, collateral provides adequate coverage relative. Francis GakuuMacharia (2022).It's true the strategy spells out how credit monitoring works but leaves out how to implement it and reduce on default rates in banks.

In addition to above, according to James Mwangi Migwi (2018), in his investigation discovered that banks need to monitor loans to ensure proper payments as a strategy for credit monitoring, he says that banks that do have daily, weekly or monthly credit reports generated to monitor loans and the banks strictly monitor the account operation of its customers for early corrective measures in case of default. Effective credit monitoring will include steps to make sure the bank is aware of the borrowers or counterpart's current, financial situation; make sure all credit are in compliance with the current covenant make sure projected cash flows on major credits meet deb, servicing requirements; make sure collateral where applicable, provides adequate coverage relative to its obligatory current condition and promptly identify and classify potential problem credits.

The problem of credit risk often starts at the loan origination/ application stage and gets worse at the loan approval, monitoring, and controlling stages, according to Jennipher Rose Namuyanga's (2019) analysis. This is especially true when credit risk management guidelines in terms of policy and strategic procedures of credit processing are either nonexistent or very

inadequate . According to Jennipher Rose Namuyaga (2019), banks provide their clients rigorously evaluate credit proposals before approving them.

This is not done by DFCU bank Uganda hence increasing the default rates, operational costs of the bank.

For the various components of credit administration to function appropriately, senior management must understand and demonstrate that it recognized the importance of this element of monitoring and controlling credit risk (Basel, 2020).

#### **2.4 Credit Risk Management Practices and Default Rates in DFCU Bank.**

DFCU Bank in Uganda employs several credit risk management strategies to mitigate potential losses and maintain a healthy loan portfolio. These include the implementation of a comprehensive model risk governance framework, which involves the validation and open rationalization of predictive models to enhance credit analytic accuracy and mitigate errors (DFCU Bank, 2024). The bank conducts regular stress tests and scenario analyses to assess the impact on its credit portfolio and makes recommendations based on these evaluations (Workatele, 2024). Additionally, DFCU Bank emphasizes the importance of bench marking its risk appetite and tolerances against industry standards and regulatory expectations, ensuring alignment with its business strategies (The Ugandan Jobline, 2024).

Despite these robust strategies, DFCU Bank has experienced challenges with loan default rates, which have prompted continuous improvements in their credit risk management practices. The bank's focus on proactive assessment of industry and sector risks, macroeconomic analysis, and performance trend analysis is crucial for early detection of emerging risks and implementing measures to improve loan performance and reduce defaults (DFCU Bank, 2024).

The danger that financial cost may occur when customers, clients of market counter parties fail to ful fill their contractual obligations to the bank is referred to as credit risk. Barclay's Bank of Uganda actively seeks to originate and manage credit risk in such a way as to achieve sustainable asset growth and risk-adjusted returns in line with board approved risk appetite (Barclay's Bank of Uganda, 2023 reports). Credit risk management strategies have been defined as the identification, measurement, monitoring and control of risk arising from the possibility of nonpayment of loans advanced to various clients (Kithinji, 2019) Loans extended to bank's clients might have risks associated with non-repayment in circumstances the bank assumes that the loanees will faithfully

pay back amounts borrowed; some borrowers usually don't repay resulting to decreases performance due to non-performing loans provisioning . Earnings vary as the commercial banks don't have an indication of the proportion of defaulters thus exposing the banks to additional risks (Kithinji, 2019) Every commercial bank experiences a certain amount of Uncertainty in instances where it loans funds to individual and corporate customers.

In such scenarios, the financial institution may end up with lending losses should some of the borrowers fail to clear loans as per agreements. Primarily, credit-risk of a banking institution are the chances that a loss resulting from default of interests and the principal, or the two of them, or inability of the bank to sell the securities held against the loan (Kithinji, 2019). As a threat facing the soundness of commercial banks, credit risks faced by banking institutions portend crunches not only to the financial institutions but also to the financial market as a whole (Kithinji, 2019).

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 Introduction**

The methodology for the study is covered in this chapter. It focuses on the study area, target demographic, sampled population, sample size and selection, and the research design and methodologies that were used. The chapter looks at methods and procedures for data collecting and procedures, and data collection instruments.

#### **3.1 Research Design**

A descriptive survey research method was incorporated in the study which included self-administered questionnaires as one of the tools of data collection. A qualitative inquiry is undertaken as it helps the investigator comprehend the circumstances for confronting a problem in the case study and also for more extensive insight by way of the use of interviews and analysis of documents. For the purpose of this study, the chosen research design is quantitative, one that necessitates numerical data. For purpose of this paper's survey design, the primary and secondary data of this study was retrieved from DFCU bank branch in Mukono to assess risk management approaches in comparison to loan default rates. The design was preferred because it provides room for the researcher to gather information in the absence of control of any variable of interest in the study. Moreover, the design equally offered respondents an equal opportunity to participate in the investigation process. The research will be of quantitative nature because this helped to show particular results of the variables under consideration using correlation analysis.

#### **3.2 Study Population**

DFCU bank has got many branches almost in every district of Uganda, for the purpose of this study the researcher used Mukono branch as her case study which had a population of 35 as stated by DFCU bank Mukono Branch Manager and this population includes the branch manager, branch supervisor, and other officers. Population refers to an entire group of

individuals, events or objects having a common observable characteristic as Mugenda (2013) posit.

### 3.3 Sample Size and Procedure

The appropriate sample size was selected using the formula, developed by Yamane (1967), where a confidence level of 95% was considered. For this study the researcher used a sample size of 32 respondents which was selected from the study population of 35. This was illustrated below;

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

**Where**

n= Sample Size

N=Total Population

e = Confidence level

$$\text{Therefore; } n = \frac{35}{1 + 35(0.05)^2} = \underline{32 \text{ respondents}}$$

### 3.4 Sampling Technique

The sampling technique offers the necessary information on sample selection as well as a thorough base from which the study sample may be selected and for a sufficient population for a high-quality participant selection. The researcher used a simple random sampling technique for this study because it gave an equal chance to each individual in the population chosen to be the sample actually selected (Moore and McCabe, 2007)

### **3.5 Source of Data Collection**

The study used primary data and secondary data. The use of questionnaire was involved in the primary source. The secondary source was company reports and journals.

#### **3.5.1 Primary data**

The required primary data was collected from DFCU bank branch manager, branch supervisor and other Officers. This was done through administering questionnaires, to ensure accuracy in the data collection, respondents were guided through the questionnaire.

#### **3.5.2 Secondary data**

The secondary data served as evidence for the study's empirical conclusions. To determine the companies' default rates, this information was taken from the financial reports of the business, such as the income statements and balance sheets. Other secondary data was also gathered from journal articles that have been published.

### **3.6 Data Collection Instruments**

The primary data was gathered through the distribution of questionnaires. Each research variable was covered by structured questions in the questionnaires. The questions about loan default rates and risk management strategies were created. Respondents indicated in their responses whether or not they agreed with the statements in the questionnaire.

### **3.8 Method of Data Collection**

The primary data will be collected from the answered questionnaires that were given to the targeted sample size of respondents of DFCU bank (Mukono Branch) and input in to the computer for analysis using STATA version 12. The secondary data was collected from the company's public documents which include the annual reports looking at the financial statements in a 7-year period between 2010 to 2017 and will use content analysis for analyzing the data.

### **3.9 Data Analysis**

Data collected was entered into the computer and then the researcher analyze it using SPSS version 20, this helped to generate statistical data that was used in generating table frequencies and percentages. Some of these in turn were used to construct tables which were applied when

drawing conclusions, variables were summarized using means, minimum and maximum values. Uni variate analysis will be performed to describe the trends in the data while at bi variate level correlation was carried out to determine relationships between various two variables. For the secondary data, the researcher used content analysis to analyze the data and to draw conclusions.

### **3.10 Data Collection Procedure**

For the investigation, the researcher used both primary and secondary data. The researcher applied for approval at the university and submitted her proposal. The researcher also received a cover letter from DFCU bank allowing her to proceed with the research after successfully defending the project. Key informants were contacted by the researcher, who also requested their approval to participate in the study after giving them all the information they needed about it.

Respondents received the questionnaires by hand with an assurance of voluntary participation, confidentiality, and anonymity. Completed forms will be gathered and evaluated or examined in accordance with intended purpose.

### **3.11 Ethical Considerations**

Individuals' and institutions' rights were upheld. After assuring each respondent that their answers would remain anonymous, the researcher initially requested their consent. The study's nature and goal were explained to the participants, who were free to discontinue participation at any moment without incurring any penalties.

## CHAPTER FOUR

### PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

#### 4.0 Introduction

This chapter is a section where data is collected and analyzed, the interpretation of the research findings investigating about risk management strategies and loan default rates in financial institutions. In the presentations, the following have been used; tables, Bar graphs, frequencies and percentages. These have been used to describe and analyze the findings got by the questionnaires. The study presented the findings using tables as seen below.

#### 4.1 Background Characteristics of Respondents

**Table 1: showing the gender of respondents**

category	frequency	percent
Male	23	65.7
Female	12	34.3
Total	35	100

**Source;** primary data

From the research findings, the response rate was attained 100% , the table was set to determine the gender of the employees at DFCU Bank about the research problem and majority of the individuals from the Bank who responded to the research were male who comprised of 65.7% (23) while the minority females were comprised of 34.3% (12) of the total number of respondents. This showed that the male was dominant and were more willing to answer to the research questions as compared to the females.

#### 4.2 Demographics of Respondents

This section includes cross cutting features of respondents involved in the study for example age, marital status and more.

**Table 2; Showing the age of respondents**

<b>Age group</b>	<b>frequency</b>	<b>percent</b>
21-30 years	15	42.9
31-40 years	12	34.3
Valid 41-50years and above	8	22.9
Total	35	100.0

**Source;** primary data

This table above was set to determine the age of the respondents and the majority of the people who responded to the research were between 21-30 years of age who were made up of 42.9% (15) of the total number of respondents and were followed by age group 31-40 years who were made up of 34.2% (12) of the total number of respondents and finally those in the age group of 41-50 years and above who were made up of 22.9% (8) of the total number of respondents.

**Table 3; Showing the marital status of respondents**

<b>Marital status</b>	<b>frequency</b>	<b>percent</b>
single	13	37.1
Married	6	17.1
Widow / widower	8	22.9
Divorced/ separated	8	22.9
Total	35	100

**Source;** primary data

The table above was set to establish the marital status of the respondents and it was seen that majority of the people who responded to the research were single at 37.1% (13) while they were followed by the widow/widower and divorced/separated at 22.9% (8) while those who were married were made up of 17.1% (6) of the total number of respondents. This shows how respondents were stable on the work that they do and therefore were in position to offer valid

response to this research. The marital status of respondents established the sense of responsibility and the devotion at work of respondents. Usually married, widowed employees seem to be much focused, seek for value in work they do than any other categories.

**Table 4; Showing the highest level of education of respondents**

<b>Level</b>	<b>frequency</b>	<b>percent</b>
Professional qualification	5	14.3
Post graduate	7	20.0
Tertiary education	11	31.4
Post secondary education	5	14.3
others	3	8.6
none	4	11.4
total	35	100.0

**Source;** primary data

From the table above, the respondents were asked of their level of education and majority of the respondents 31.4% had tertiary education levels of qualification and were followed by post graduate who were comprised of 20% of the total number of respondents and 14.3% had professional qualification and post-secondary education followed by 11.4% who had no education qualification finally others with 8.6. This showed the high literacy rates amongst the respondents which meant that they were able to fully read and understand the questions of research that were asked of them. Usually, working with an educated, qualified and professional staff gives room for progress in terms of training and quality services. The variable was important because it showed the role of an educated staff in accelerating the company's performance as well as excellent departments management in the organization

**Table 5; Showing the position held by the respondents.**

<b>Levels</b>	<b>frequency</b>	<b>percent</b>
Top management level	18	51.4
Middle management level	10	28.6
Supervisory level	7	20.0
total	35	100

**Source;** primary data

This table was asked of the position held in the organization or the management level within the organization and from the above, it was seen that majority of the respondents 51.4% were from the top management level while 28.6% were in the middle management level and 20% were at the supervisory level. This was important in determining the management.

### 4.3 Descriptive Analysis

The statistical analysis were performed using the (SPSS) Statistical package for the Social Sciences software program, using version 20.

**Table 6; Showing credit monitoring strategy in the reduction of loan defaults rates in DFCU bank.**

	STATEMENT	SA		A		SD		D		NS	
		f	%	f	%	f	%	f	%	f	%
1	Timely notifications about any changes in the loan terms and conditions are always passed to the customers	11	31.4	15	42.9	4	11.4	2	5.7	3	8.6
2	The bank provides clear and understandable information about the loan obligations	9	25.7	21	60.0	1	2.9	4	11.4	0	
3	Loans are the physical assets of the bank so failure to control loan defaults leads to shake out of the bank	22	62.9	11	31.4	0		0		2	5.7
4	Monthly reports are prepared to monitor borrowers performance in loan management	17	48.5	12	34.3	1	2.9	4	11.4	1	2.9

5	The bank strictly monitors the accounts operations of its customers for early corrective measure in case of defaults	11	31.4	15	42.9	4	11.4	2	5.7	3	8.6
6	The bank offers mostly secured loans to customers hence controlling loan defaults	9	25.7	16	45.7	3	8.6	6	17.1	1	2.9
7	Proper tools are offered by the bank to monitor borrowers loans and credit status	9	25.7	21	60.0	1	2.9	1	2.9	3	8.6
8	The banks online platform is user friendly for monitoring the loan status	13	37.1	8	22.9	4	11.4	6	17.1	4	11.4
9	The management also sometimes gives in secured loans to customers thus increasing loan defaults	9	25.7	6	17.1	9	25.7	8	22.9	3	8.6

**Source;** primary data

The findings on the credit monitoring strategy in the reduction of loan default rates in DFCU bank.

The respondents were asked if timely notifications about any changes in the loan terms and conditions are always passed to the customers and it was seen that majority of the respondents agreed with 42.9% and these were followed by strongly agreed which carried 31.4% also followed

by strongly disagree with 11.4 and not sure of 8.6, lastly disagree with 5.7%. This shows that the bank provides timely notifications to its customers about any changes made, therefore it is recommended in the reduction of loan defaults.

The respondents were also asked if the bank provides clear and understandable information about the loan obligations, it was seen that most of the percentage agreed to this which produced 60% and it was followed by 25.7% of strongly agree, then 11.4 of disagree and then 2.9% who were in strong disagreement, this implies that at a higher percentage the bank provides clear and understandable information about its loan obligations.

They were further asked if loans are the physical assets of the bank so failure to control loan defaults leads to shake out of the bank and the respondents results were 62.9% strongly agree, 31.4% agree, and 5.7% not sure here the respondents did not disagree or strongly disagree which shows that really loans are physical assets of the bank.

Monthly reports are prepared to monitor borrowers performance in loan management was also asked where respondents strongly agreed at 48.5% followed by agree of 34.3% , 11.4of disagree lastly 2.9 of strongly disagree and not sure.

The bank strictly monitors the accounts operations of its customers for early corrective measure in case of defaults and here 42.9% of the respondents agreed,31.4% strongly agreed, 11.4 strongly disagreed ,8.6% not sure then 5.7% of disagree.

The bank offers mostly secured loans to customers hence controlling loan defaults where 45.7% agreed, 25.7% strongly agreed, 17.1% disagreed, followed by 8.6% of strongly disagree then finally 2.9% of not sure respondents.

Proper tools are offered by the bank to monitor borrowers loans and credit status here the respondents agreed at 60%, 25.7% strongly agreed, 8.6% not sure and then 2.9% of strongly disagree and disagree.

The banks online platform is user friendly for monitoring the loan status 37.1% of the respondents strongly agreed, 22.9% agreed, 17.1% of the respondents disagreed, then 11.4% strongly disagreed and also 11.4 of the respondents are not sure.

The management also sometimes gives in secured loans to customers thus increasing loan defaults

here 25.7% of the respondents strongly agreed and also 25.7% also strongly disagreed followed by 22.9% disagreed while 17.1% agreed and finally 8.6 of the respondents were not sure.

In conclusion, the study was set out to establish the credit monitoring strategies employed at DFCU bank and its seen that the strategies carried out are effectively controlling risks and loan default rates for example monitoring the accounts operations of its operations of its customers for early corrective, preparing monthly reports and more as seen above.

**Table 7: Showing the credit risk management practices help to control loan defaults in DFCU bank.**

	STATEMENT	SA		A		SD		D		NS	
		f	%	f	%	f	%	f	%	f	%
1	The loan risk supervisor sends early notifications to loan collection section in case of delayed payment.	11	31.4	10	28.6	5	14.3	6	17.1	3	8.6
2	The bank has effective measures in place to assess the risk before approving loans	14	40.0	11	31.4	4	11.4	4	11.4	2	5.7
3	Risk management practices give confidence during the lending process.	13	37.1	9	25.7	6	17.1	4	11.4	3	8.6
4	The existence of increasing inflation in the economy facilitates to high number of loan defaulters	9	25.7	14	40.0	4	11.4	7	20.0	1	2.9
5	The institution sends emails to clients as a reminder of their payment owing hence	13	37.1	12	34.3	5	14.3	3	8.6	2	5.7

	managing default rates										
6	Each and every borrower is aware of their collateral requirements for their loans	7	20.0	11	31.4	6	17.1	7	20.0	4	11.4
7	The bank clearly explains the consequences of loan default	9	25.7	20	57.1	0		0		6	17.1
8	The bank is transparent about their credit risk management policies	12	34.3	13	37.1	3	8.6	5	14.3	2	5.7
9	The risk assessment process is always thorough during loan application	8	22.9	9	25.7	7	20.0	8	22.9	3	8.6
10	I feel that DFCU Bank takes adequate steps to mitigate credit risks	19	54.3	13	37.1	1	2.9	2	5.7	0	0

**Source;** primary data

From the above, the respondents were asked if the loan risk supervisor sends early notifications to loan collection section in case of delayed payment hence managing default rates as a means of credit risk management and it was seen that majority of the respondents 31.4% strongly agreed that the institution sends early notifications to loan collection section in case of delayed payment while these were supported by 28.6% who agreed to the statement while 17.1 disagreed, 14.3% strongly disagreed and 8.6% of the respondents were not sure.

The bank has effective measures in place to assess the risk before approving loans was also approved by the respondents in such a way that 40% of the respondents strongly agreed to this were also 31.4% of the respondents agreed to the statement while these were followed by 11.4% of the respondents strongly disagreed and disagreed at the same time finally 5.7% were not sure about this statement.

Another question was asked if risk management practices give confidence during the lending process. And yes, it was seen that 37.1% of the respondents strongly agreed, 25.7%

agreed,17.1strongly disagreed, 11.4%disagreed and 8.6 % were not sure about how risk management practices give confidence during the lending process.

The respondents were also asked if the existence of increasing inflation in the economy facilitates to high number of loan defaulters and here the respondents agreed at 40%, strongly agreed at 25.7% ,while 20% disagreed,11.4% strongly disagreed finally the ones who were not sure were 2.9% of the population.

From the table above, the respondents were also asked if the institution sends emails to clients as a reminder of their payment owing hence managing default rates were 37.1% of the respondents strongly agreed, 34.3% agreed,14.3% strongly disagreed,8.6% disagreed, and then 5.7% of the respondents were not sure.

Each and every borrower is aware of their collateral requirements for their loans here 31.4% of the respondents agreed, 20% strongly agreed and also disagreed, while 17.1% strongly disagreed and then 11.4% of the respondents were not sure.

Respondents were asked if the bank clearly explains the consequences of loan default.

Were the respondents agreed at 57.1% ,they strongly disagreed at 25.7% and not sure at 17.1% Here neither did the respondents strongly disagree nor disagree.

37.1% of the respondents agreed to the bank question if the bank is transparent about their credit risk management policies in the credit risk management practices and also 34.3% strongly agreed while 14.3% of the respondents disagreed,8.6% strongly disagreed finally 5.7% of the respondents were not sure if the bank is transparent about their credit risk management policies in the credit risk management practices.

The risk assessment process is always thorough during loan application here the respondents 25.7% agreed,22.9% strongly agreed, 22.9% also disagreed,20% strongly disagreed and 8.6 were not sure.

The respondents were also asked ifDFCU bank takes adequate steps to mitigate risks and majority of them strongly agreed at a percentage of 54.3%, 37.1% agreed, 5.7%disagreed and lastly 2.9% of the respondents strongly disagreed.

**Table 8; Showing the credit recovery strategy in the management of loan default in a bank.**

	STATEMENT	SA		A		SD		D		NS	
		f	%	f	%	f	%	f	%	f	%
1	DFCU Bank has effective measures in place for recovering defaulted loans	19	54.3	9	25.7	3	8.6	4	11.4	0	0
2	The bank provides options for restructuring loans to avoid defaults	11	31.4	8	22.9	7	20.0	6	17.1	3	8.6
3	Recovery strategies are fair and they are also reasonable	7	20.0	13	37.1	6	17.1	6	17.1	3	8.6
4	We offer adequate support during financial difficulties to prevent defaults.	15	42.9	14	40.0	2	5.7	3	8.6	1	2.9
5	DFCU Banks credit recovery team is approachable and helpful	19	54.3	9	25.7	2	5.7	3	8.6	2	5.7
6	There are many costs involved in debt collection as loan defaulters increase	11	31.4	16	45.7	1	2.9	4	11.4	3	8.6
7	The management makes weekly telephone calls to clients delaying with the assets of the company	10	28.6	9	25.7	7	20.0	6	17.1	3	8.6

**Source;** primary data

Results in table 8 present findings on the responses about credit recovery strategy in the management of loan default in a bank.

DFCU bank has effective measures in place for recovering defaulted loans had 54.3% of the respondents who strongly agreed, 25.7 agreed, 11.4% who disagreed and 8.6% of the respondents who strongly disagreed

31.4% of the respondents strongly agreed, 22.9% agreed, 20% strongly disagreed, 17.1% disagreed and 8.6% of the respondents were not sure with bank providing options for restructuring loans to avoid defaults.

Recovery strategies are fair and they are also reasonable had 37.1% of the respondents who agreed, 20% strongly disagreed, 17.1% strongly disagreed also 17.1% disagreed while 8.6% of the respondents were not sure about this statement in credit recovery strategy and in the management of loan default in DFCU bank.

The respondents were also asked if the bank offers adequate support during financial difficulties to prevent defaults. which had 42.9% strongly agreed, 40% agreed, 8.6% disagreed, 5.7% strongly disagreed while 2.9% of the respondents were not sure.

DFCU Banks credit recovery team is approachable and helpful had 54.3% of the respondents strongly agreed, 25.7% agreed, 8.6% disagreed, 5.7% strongly disagreed and 5.7 of the respondents were not sure.

The management makes weekly telephone calls to clients delaying with the assets of the company had 28.6% of the respondents strongly agreed, 25.7% agreed, 20% strongly disagreed, 17.1% disagreed and then finally 8.6% of the respondents were not sure of this statement in the credit recovery strategy.

According to the literature review, it can be seen that an author for example McKee (2019) in his remarks, he points out the different strategies to be used by financial institutions in order to reduce the debt recovery problems in banks. The management making weekly telephone calls to clients delaying with the assets of the company has proved to be a good measure which encourages debtors to pay up their debts because some customers are not able to remember when their debts are due. Reminders, such as emails, SMSs, texts, or phone calls, help the client remember their bank obligations and become better equipped to pay back their loans. Most of the time, the banking sector has a debt recovery unit that is in responsibility of monitoring loans before they become past due and making efforts to collect the amount.

#### **4.4 Correlation Analysis**

Correlation analysis refers to a statistical method which was used to measure the relationship between two variables. It measured the strength and direction of the relationship between variables. This section covered the correlation analysis findings which show the relationship between the study variable using Pearson’s correlation.

**Table 9; Showing correlation between credit monitoring strategies and loan default rates**

		<b>Credit monitoring</b>	<b>Loan default rates</b>
	Pearson correlation	1	.74
Credit monitoring strategies	Sig (2-tailed)		.001
	N	35	35
Loan default rates	Pearson correlation	.74	1
	Sig (2 tailed)	.001	
	N	35	35

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

Source; primary data

Findings reveal a moderate to strong relationship between credit monitoring and Loan default rates at  $(r) = 0.72$ ,  $p = 0.001$  at the level of significance 0.05 (2-tailed).

The findings mean that when credit monitoring strategies are emphasized, loan default rates are enhanced. The correlation coefficient is 0.74 which is positive and shows that the relationship is moderate.

**Table 10; Showing correlation between credit risk management strategies and Loan default**

**rates**

		<b>Credit risk Management strategies</b>	<b>Loan default rates</b>
	Pearson correlation	1	.81
Credit risk management strategies	Sig (2-tailed)		.000
	N	35	35
Loan default rates	Pearson correlation	.81	1
	Sig (2 tailed)	.000	
	N	35	35

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

Source; primary data

The findings in the table show that (  $r$ )= 0.81 , $p$ =0.000 at the level of significance 0.01 (2-tailed) which indicates a strong and highly significant positive relationship between the credit risk management practices and controlling loan defaults in DFCU bank.

**Table 11; Showing credit recovery strategy and loan default rates**

		Credit recovery	Loan default rates
	Pearson correlation	1	.83
Credit recovery	Sig (2-tailed)		.000
	N	35	35

Loan default rates	Pearson correlation	.83	1
	Sig (2 tailed)	.000	
	N	35	35

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

**Source;** primary data

The findings in the table show that (  $r$ )=0.83, $p$ =0.000 at the significance value of 0.000 which suggests that the probability of observing this correlation by chance is extremely low, indicating a reliable and trustworthy relationship between the variables.

### **Regression Analysis**

Regression analysis showed and determined the influence of independent variables (Risk management strategies) on the dependent variable (loan default rates) of the study

This section presents the regression findings on risk management strategies.

### **Risk management strategies and loan default rates.**

**Table 12; Multiple model summary**

<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R square</b>	<b>Standard Error</b>	<b>F</b>	<b>Sig.</b>
1	.83	.69	.65	.42	12.51	.000

Source; primary data

Model summary results reveal that Adjusted R = 0.65 of the variation in loan default management which shows a moderate to high explanatory power . In this case, the credit risk management explains about 65% of the variation in loan default management, suggesting a moderate to high level of explanatory power.

**Table 13; Regression coefficients****Coefficients**

<b>Model</b>		<b>Unstandardized coefficients</b>		<b>Standardized coefficients</b>	<b>t</b>	<b>Sig.</b>
		<b>B</b>	<b>Std. Error</b>	<b>Beta</b>		
<b>1</b>	<b>( constant)</b>	<b>2.13</b>		<b>0.51</b>	<b>4.41</b>	<b>0.000</b>
	<b>Credit monitoring strategies</b>	<b>0.23</b>	<b>0.12</b>	<b>0.20</b>	<b>1.92</b>	<b>0.057</b>
	<b>Credit risk management</b>	<b>0.38</b>	<b>0.11</b>	<b>0.33</b>	<b>3.45</b>	<b>0.001</b>
	<b>Credit recovery management practices</b>	<b>0.42</b>	<b>0.10</b>	<b>0.40</b>	<b>4.12</b>	<b>0.000</b>

Source; primary data

The table presents the results of a multiple linear regression analysis which examines the

relationship between three independent variables (credit monitoring strategies, credit risk management practices, and credit recovery strategies and one dependent variable of loan default rates.

Credit monitoring strategies have (0.23) which indicates for every 1 unit increase in credit monitoring strategies, loan default management increases by 0.23 units, controlling for all other variables.

Credit risk management practices (0.38) here for every 1 unit increase in credit risk management practices, loan default management increases by (0.38) units, controlling for all other variables.

Credit recovery strategies (0.42) for every increase in 1 unit in credit recovery strategy, loan default management increases by 0.42 units, controlling for all other variables

## **CHAPTER FIVE**

### **DISCUSSION OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **5.0 Introduction**

This study was designed to establish the risk management strategies and loan default rates in financial institutions. The study also stabled the relationship between risk management strategies and loan default rates in DFCU bank. It also talks about all findings which are reported in chapter four according to questions of the study and draws conclusions and recommendations.

## **5.1 Summary of Findings.**

### **5.1.2 Credit monitoring strategy and loan default rates in financial institutions**

Credit risk management is crucial for financial institutions, especially in the banking sector. The use of psychometric credit scoring as a substitute for collateral can impact loan default rates. Information for example risk assessment by banks, rating agencies, or credit bureaus, and market information, such as prices of traded debt, can help with credit risk management. Effective credit risk management can reduce loan processing time and costs by 25% or more and cut default rates by 40% to 80%. This study was set to establish the credit monitoring strategies which are employed at DFCU bank and other institutions at large, and these may include pricing loans according to the risk profile of the borrower, government involvement in credit risk assessment can lead to higher default rates, regular review and reconfiguration of risk management practices can support the loan approval process and reduce default rates, giving secured loans to customers and many more. This really showed that the bank employed many various credit monitoring strategies thus controlling loan defaults in DFCU bank.

### **5.1.3 Credit risk management strategies or practices in controlling loan defaults in DFCU bank.**

The bank employs various credit risk management practices in controlling loan defaults. DFCU banks credit appraisal process plays a significant role in controlling loan defaults. A thorough appraisal helps identify creditworthy borrowers. The following practices have been put in place, the loan risk supervisor sends early notifications to loan collection section in case of delayed payment, the bank has effective measures in place to assess the risk before approving loans, the institution sends emails to clients as a reminder of their payment owing hence managing default rates, the bank makes sure every borrower is aware of their collateral requirements for their loans, the bank clearly explains the consequences of loan default.

### **5.1.4 The credit recovery strategies in the management of loan default in a bank.**

The bank employees early interventions in order to carry out credit recovery strategies. The following was implemented. The bank has effective measures in place for recovering defaulted loans, it also provides options for restructuring loans to avoid defaults, offers adequate support during financial difficulties to prevent defaults, the credit recovery team is approachable and

helpful.

## **5.2 Conclusion**

The study on risk management strategies and loan default rates in financial institutions, with a case study of DFCU Bank, has provided valuable insights into the importance of effective credit risk management practices in controlling loan defaults. The findings indicate that credit appraisal, credit scoring, collateralization, regular credit monitoring, diversification of loan portfolio, credit limit management, customer relationship management, and compliance with regulatory requirements are crucial in reducing loan default rates.

The study also explored credit recovery strategies in managing loan defaults and found that early intervention, repayment plans, credit counselling, asset realization, debt collection strategies, relationship management, technology-driven recovery, and collaboration with third-party agencies are essential in minimizing losses and recovering defaulted loan amounts.

## **5.3 Recommendations**

From the findings, the study recommends the bank to carryout the following;

**Implement a robust credit risk management framework:** Financial institutions should establish a comprehensive credit risk management framework that includes credit appraisal, credit scoring, collateralization, and regular credit monitoring.

**Invest in staff training and development:** Banks should invest in staff training and development to enhance credit risk management and recovery skills.

**Leverage technology:** Financial institutions should leverage technology to streamline credit risk management and recovery processes, improve efficiency, and reduce costs.

**Foster strong relationships with borrowers:** Banks should maintain strong relationships with borrowers to prevent defaults and improve recovery rates.

**Continuously review and update credit risk management practices:** Financial institutions should regularly review and update their credit risk management practices to address emerging risks and improve effectiveness.

**Implement a proactive credit recovery strategy:** Banks should develop a proactive credit recovery

strategy to address potential defaults early and minimize losses.

By implementing these recommendations and continuing to research and improve credit risk management practices, financial institutions can reduce loan default rates, minimize losses, and maintain a stable and resilient financial system.

#### **5.4 Areas for further research**

The study recommends that further studies should be carried out and these are;

Impact of digitization on Credit Risk Management

Role of Artificial Intelligence in Credit Risk Management

Comparative Analysis of Credit Risk Management Practices

Impact of Regulatory Changes on Credit Risk Management: Investigate how changes in regulatory requirements, such as Basel III, affect credit risk management practices and recovery rates.

These areas of further research can provide valuable insights into credit risk management practices, recovery rates, and financial stability, ultimately contributing to a more resilient financial system.

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## APPENDICES

### APPENDIX 1: QUESTIONNAIRE

#### RESEARCH QUESTIONNAIRE

Research Questionnaire for employees in DFCU Bank about Risk management strategies and loan default rates.

Dear respondent,

A questionnaire is an academic study which helps in investigating risk management strategies and loan default rates in financial institutions. The findings of this study are meant to satisfy partial requirements for the award of a Bachelors of Science in Accounting and Finance degree at Uganda Christian University. Your responses below shall be kept confidential and will be used for only study purposes. You are hereby required to spare some time and respond to this questionnaire.

#### SECTION A : RESPONDENT BACKGROUND

1) Gender : Male   Female

2) Age ( years) : 21-30  31-40  41-50 years and above

3) Marital Status

Single  Married  widow / widower  Divorced/ separated

4) Level of education

Professional Qualification  Post Graduate

Tertiary Education  Post-Secondary Education

Others ( PLEASE SPECIFY .....

5) Length of the service offered at the bank

Less than 0-2 years  1-3 years  3-6 years

above 6 years

6) Position Held

Top Management level  Middle Management level  Supervisory level

**SECTION B: CREDIT MONITORING STRATEGY**

**Please Tick as appropriate**

In this section, the researcher seeks to establish the credit monitoring strategy and loan default in DFCU bank. ( Please Tick the appropriate alternative).

Key : SA = strongly agree, A = agree, SD = strongly disagree, D= disagree, NS = not sure

	<b>STATEMENT</b>	<b>SA</b>	<b>A</b>	<b>SD</b>	<b>D</b>	<b>NS</b>
1	Timely notifications about any changes in the loan terms and conditions are always passed to the customers					
2	The bank provides clear and understandable information about the loan obligations					
3	Loans are the physical assets of the bank so failure to control loan defaults leads to shake out of the bank					
4	Monthly reports are prepared to monitor borrowers performance in loan management					
5	The bank strictly monitors the accounts operations of its customers for early corrective measure in case of defaults					
6	The bank offers mostly secured loans to customers hence controlling loan defaults					

7	Proper tools are offered by the bank to monitor borrowers loans and credit status					
8	The banks online platform is user friendly for monitoring the loan status					
9	The management also sometimes gives insecured loans to customers thus increasing loan defaults					

### SECTION C : Credit risk management practices

**Instruction :Please tick as appropriate**

In this section, the researcher seeks to evaluate the credit risk management practices and default rates in the bank. Please Tick the appropriate alternative.

Key : SA =strongly agree, A= agree, SD = strongly disagree, D= disagree, NS= not sure

	STATEMENT	SA	A	SD	D	NS
1	The loan risk supervisor sends early notifications to loan collection section in case of delayed payment.					
2	The bank has effective measures in place to assess the risk before approving loans					
3	Risk management practices give confidence during the lending process.					

4	The existence of increasing inflation in the economy facilitates to high number of loan defaulters					
5	The institution sends emails to clients as a reminder of their payment owing hence managing default rates					
6	Each and every borrower is aware of their collateral requirements for their loans					
7	The bank clearly explains the consequences of loan default					
8	The bank is transparent about their credit risk management policies					
9	The risk assessment process is always thorough during loan application					
10	I feel that DFCU Bank takes adequate steps to mitigate credit risks					

**SECTION D: CREDIT RECOVERY STRATEGY**

**Instruction: please tick as appropriate**

In this section, I seek to analyze the credit recovery strategy on reduction of default rates in the bank. Please tick the appropriate alternative

Key: SA= strongly agree, A= agree, D= disagree, SD= strongly disagree, NS = not sure

	<b>STATEMENT</b>	<b>SA</b>	<b>A</b>	<b>D</b>	<b>SD</b>	<b>NS</b>
1	DFCU Bank has effective measures in place for recovering defaulted loans					
2	The bank provides options for restructuring loans to avoid defaults					
3	Recovery strategies are fair and they are also reasonable					
4	We offer adequate support during financial difficulties to prevent defaults.					
5	DFCU Banks credit recovery team is approachable and helpful					
6	There are many costs involved in debt collection as loan defaulters increase					
7	The management makes weekly telephone calls to clients delaying with the assets of the company					

**Thank you very much for your cooperation.**

## APPENDIX 2: DATA COLLECTION LETTER



**UGANDA CHRISTIAN  
UNIVERSITY**

A Centre of Excellence in the Heart of Africa

SCHOOL OF BUSINESS

24<sup>th</sup> July, 2024

TO WHOM IT MAY CONCERN

Name: **NASSOZI CHRISTINE FAITH**

Reg. No **S21B33/040**

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

**"Risk Management Strategies and Loan Default rates in Financial Institutions in Uganda, a case study of DFCU Bank Mukono"**

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

The Uganda Christian University School of Business thanks you in advance

Mukisa Simon Peter  
Research coordinator



A Centre of Excellence in the Heart of Africa