

**MAKERERE**



**UNIVERSITY**

**ASSESSING LOAN INTEREST PAYMENTS IN COMMERCIAL BANKS IN UGANDA:  
A CASE OF EQUITY BANK UGANDA LIMITED**

**BY**

**ALITUWA JULIAN**

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**NOVEMBER, 2025**

**DECLARATION**

I, **ALITUWA JULIAN**, do hereby declare that this dissertation is my original work and it has never been submitted before for any examination at any other university. All the sources I have used are indicated and acknowledged herein.

Signature: \_\_\_\_\_

*Alitwa*

Date: \_\_\_\_\_

*19/11/2025*

**ALITUWA JULIAN**

**2023/HD06/23094U**

## APPROVAL

This is to certify that this dissertation has been done under my supervision and submitted with my approval as university academic research supervisors.

Signature: \_\_\_\_\_



Date: \_\_\_\_\_

19/11/2025

**Dr Festo Tsubira Nyende**

## **DEDICATION**

This work is lovingly dedicated to God, with heartfelt thanks for the wisdom, strength, and clarity that guided me through the completion of this chapter. To my amazing family, your unwavering love, sacrifices, and faith in me have been the foundation of this journey. You inspired my pursuit of growth, and I hold that gift with deep and lasting gratitude.

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## **LIST OF ABBREVIATIONS AND ACRONYMS**

BCBS	Basel Committee on Banking Supervision
CEO	Chief Executive Officer
CG	Corporate Governance
CG	CORPORATE GOVERNANCE
CoBAMs	College of Business and management science
CVI	Content Validity Index
FLOD	First Line of Defense
GDP	Gross Domestic Product
KRI	Key Risk Indicators
OECD	Organizations for Economic Co-operation and Development
ORM	Operational Risk management
SD	Standard Deviation
SPSS	Statistical package for social scientists

## ABSTRACT

The study purposely investigated the loan interest payments at Equity Bank Uganda Limited. The study was based on three objectives; to examine the causes high defaults at Equity Bank Uganda Limited, to assess loan interest payment challenges at Equity Bank Uganda Limited and to suggest ways of improving loan repayment at Equity Bank Uganda Limited. The study employed a cross-sectional and descriptive research with a mixed study approach which involved collecting both numerical data and qualitative data from 216 Equity bank customers and 5 staff of Equity bank Uganda. Data were analyzed using SPSS version 27 and Atlas (Version 9). The study found that the major causes of high loan defaults at Equity Bank Uganda Limited were primarily institutional and structural, including loan diversion (mean = 4.43, SD = 0.649), short repayment periods (mean = 4.25, SD = 0.931), lack of guidance on repayment terms (mean = 4.18, SD = 0.729), and high interest rates (mean = 4.17, SD = 0.907). Economic challenges such as inflation and unemployment (mean = 3.91, SD = 1.043) also played a significant role, while personal factors like income instability (mean = 2.08, SD = 0.846) and misunderstanding of default consequences (mean = 2.09, SD = 0.947) were less influential. Regarding loan interest payment challenges, the study found that borrowers struggled with understanding how payments were allocated between interest and principal (mean = 4.34, SD = 0.861), faced inflexible interest rates (mean = 4.17, SD = 0.919), and received untimely communication about rate changes (mean = 4.01, SD = 1.013). Respondents expressed uncertainty about how interest was calculated (mean = 3.18, SD = 0.829) and showed limited understanding of fixed versus variable rates (mean = 2.25, SD = 0.931). To improve loan repayment, the study found strong support for financial literacy training (mean = 4.48, SD = 1.029), digital loan tracking tools (mean = 4.27, SD = 0.719), and restructuring options for struggling borrowers (mean = 4.02, SD = 0.861), while motivational incentives (mean = 2.34, SD = 0.761) and frequent follow-ups (mean = 2.71, SD = 1.008) were viewed as less effective. The study recommends revising loan structures for flexible repayment, boosting financial literacy, using digital tools for tracking, improving communication, and offering restructuring and grace periods to support borrowers and reduce defaults.

## **CHAPTER ONE:**

### **INTRODUCTION**

#### **1.0 Introduction**

This chapter presents, the back ground to the study, problem statement, purpose of the study, objectives of the study, significance of the study and the theoretical review.

#### **1.1 Background of the study**

The global financial landscape is complicatedly shaped by the pivotal role of financial institutions, especially commercial banks, in fueling economic growth through the provision of credit at predetermined interest rates, leading to debate among researchers and experts on essential functions of a well-developed financial system (Farouq, Sambo, Sulong, & Sambo, 2020; Park & Kim, 2020).

Kuyateh and Kamara (2022) and Sichinga (2020) underscore the significance of financial institutions as primary revenue generators. However, global concerns about interest rates have led to regulatory interventions to protect consumer interests, as described by (Shanti, Siregar, Zulbainarni, & Tony, 2023). The recognition of access to quality financial services as a key driver of economic growth is a dominant theme, with financial development deeply linked to broader economic progress (Chowdhury & Chowdhury, 2023).

In Africa, the scenario remains consistent, with the financial services sector, including commercial banks, commanding a significant portion of economic activity in most countries (Birhanu, Boshu, Azadi, Viira, Passel, & Detert, 2021). According to Salau and Salau (2020), commercial banks in Africa are known for their involvement in long-term growth and efficiency by lowering the costs of funds and encouraging savings and more efficient use of these savings. Thus, governments in several African countries have passed legislation to regulate banking services, ensuring operational consistency under the supervision of mainstream financial regulators (Anjom, 2021; Birhanu et al., 2021; Salau & Salau, 2020). Unfortunately, financial institutions in Africa continue to face a crucial problem of credit risk due to poor loan interest repayment (Opa & Tabe-Ebob 2022; Parlasca, Johnen, & Qaim, 2022). Furthermore, Opa and Tabe-Ebob (2022), argue that this high

loan defaults has not only lead to insolvency and losses among financial institutions but also hindered their financing capacity, therefore, harming the overall socio-economic development of the country (Parlasca et al., 2022; Salau & Salau, 2020).

In the context of East Africa, particularly in Kenya, technology emerges as a critical factor in financial institutions' loan interest repayment (Lin, Wu, & Tran 2015; Munyendo, Acar, & Aviv 2022). Conversely, financial institutions in Tanzania have implemented Flexible Loan Contracts for loan repayment, catering to borrowers with variable incomes and limited resources for consumption smoothing. This flexibility allows borrowers to adjust their repayment schedules according to their cash flow (Grohmann, Herbold, & Lenel, 2020). Lorenz and Pommet (2021), assert that financial innovation has been central to East African financial institutions to improve the quality of their goods and services, as well as increase productivity and competitiveness. This region's loan management strategies are actively focused on leveraging technology to increase the number of clients who can meet their financial obligations on time, ensuring business sustainability (Lin et al., 2015; Lorenz & Pommet 2021; Munyendo et al., 2022).

In Uganda, Equity Bank Limited, a well-known financial institution, uses internal monitoring to assess the quality of its loan portfolio. By categorizing customers into different rating classes, helps the bank to assess borrowers' ability to repay interest and capital, adjust lending limits, and request appropriate collateral (Anon, 2023). However, the bank faces persist challenges in meeting loan repayment requirements set by both internal standards and those mandated by Uganda's central bank (Equity bank Limited, 2017-2023). Remarkably, Equity Bank's experience is consistent with that of other commercial banks in Uganda, which all follow Central Bank of Uganda regulations. These commercial banks, including Equity Bank Uganda, face similar social, economic, and administrative challenges that affect their ability to meet loan performance, as directed by the Bank of Uganda (Equity Bank, 2021). The performance of centenary bank' loan delinquency is show in table 1.1 below.

Year	Non-performing loans and other assets	Interest in suspense	Bad debts written off	Profits after tax
Precision	"000000"	"000000"	"000000"	"000000"
2023	363,978	59,203	60,752	-18,779
2022	277,759	39,574	34,790	45,752
2021	78,788	6,353	10,301	86,002
2020	49,289	5,334	4,647	57,860
2019	15,133	2,912	15,494	37,232
2018	12,630	2,282	7,411	35,290
2017	30,703	2,836	4,915	28,098
2016	45,565	3,690	8,355	17,029

Source: Equity bank Uganda Annual reports (2016-2023).

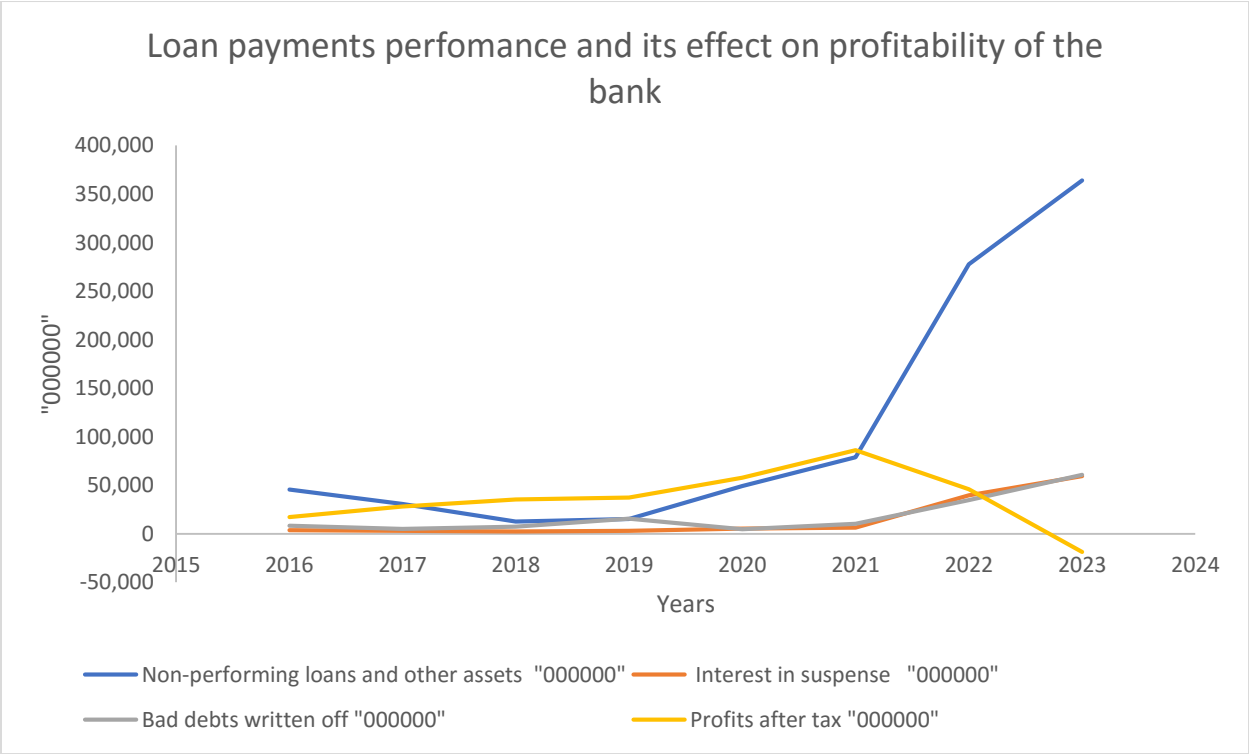


Figure 1. 1: Visual Representation of loan performance of Equity bank

Against this backdrop, loan interest repayment emerges as a critical factor affecting banks' financial sustainability. The study therefore seeks to comprehensively analyze the intricate dynamics of Loan payment management in commercial banks in Uganda, using Equity Bank as a relevant case study. By delving into the challenges and strategies employed by financial institutions, particularly Equity Bank, the study aims to contribute insights to the broader discourse on financial management, economic growth, and the overall development of the banking sector in Uganda

## **1.2 Problem Statement**

Effective loan interest payment is crucial for commercial banks as it ensures profitability, financial stability, and liquidity. Timely payments help manage risk and maintain a healthy loan portfolio. It also fosters customer trust and supports long-term business relationships (Chowdhury & Chowdhury, 2023). Equity Bank has implemented measures such as digital loan payments, collateral requirements, and loan repayment rescheduling programs to improve loan repayment (Equity Bank, 2022). Despite these initiatives, the bank continues to struggle with a rising number of non-performing loans, interest in suspense, and bad debts written off. According to the Equity Bank Reports (2023), Non-Performing Loans (NPL) from 2018 to 2023 have increased by an average of 117.79% over the past five years, accompanied by an average increase of 94.62% in bad debts written off during the same period, reaching 60.75 billion in 2023 (Equity Bank Uganda, 2023). Additionally, interest in suspense has increased by an average of 140.48% between 2018 and 2023, as shown in Table 1.1, which has heavily affected the company's profitability, leading to a loss of -18,779 million for the year ended December 2023.) In light of these challenges, the objective of this study is to conduct a focused analysis of loan interest payments at Equity Bank Uganda Limited to better understand the underlying factors contributing to the persistence of non-performing loans and escalating bad debts, despite the implemented interventions.

## **1.3 Purpose of the Study**

The purpose of the study is to analyze loan interest payments at Equity Bank Uganda Limited,

#### **1.4 Objectives of the Study**

- i. To examine the causes high defaults at Equity Bank Uganda Limited
- ii. To assess loan interest payment challenges at Equity Bank Uganda Limited
- iii. To suggest ways of improving loan repayment at Equity Bank Uganda Limited.

#### **1.5 Research Questions**

- i. What are the causes high defaults at Equity Bank Uganda Limited?
- ii. What are loan interest payment challenges at Equity Bank Uganda Limited?
- iii. What are the various ways of improving loan repayment at Equity Bank Uganda Limited?

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

This sub-section covers the content scope, geographical scope, and time scope.

##### **1.6.2 Content Scope**

This study analyzed loan interest repayment at Equity Bank Uganda Limited and come up with strategies to improve loan interest repayment at Equity Bank Uganda Limited. Equity bank was chosen for the study due to high non-performing loans associated with the bank

##### **1.6.1 Geographical Scope**

The bank is situated on Plot 390, Muteesa 1 Road, Katwe, providing a strategic location for analyzing service quality and customer satisfaction within the financial sector. The headquarters of Equity Bank Uganda Limited has more data and records on loan interest repayment than other branches, as it is the central office that oversees the bank's operations and finances.

##### **1.6.3 Time Scope**

The study analyzed interest loan repayment in Equity Bank from 2019 to the present. A period starting from 2019 is selected because it was during that year a substantial 45.9% surge in debts written off from 16 billion in 2018 to 60.75 billion in 2023 was registered. Thus, the period chosen is sufficient to collect field data, analyze, present, discuss, and preparation of the final research report

## **1.7 Significance of the Study**

The study undertaken here may be significant to various stakeholders, and policymakers as discussed below.

**To the banking industry;** The study will provide information on the effectiveness of Credit Risk Management Practices in improving the Loan Performance of the commercial bank. The study provides recommendations to commercial banks on the specific Credit Risk Management Practices they should adopt to improve Loan Performance. The study shall benefit policymakers like the Bank of Uganda (BOU) because it is a reference point for designing appropriate policies for commercial banks in Uganda to put in place proper Credit Risk Management Practices to improve return on assets.

**To Future scholars;** Future scholars will also find this study useful as it will provide top-notch and up-to-date information on credit policy in commercial banks and how they arise as well as better approaches that should be adopted to manage them. The academicians will find the study useful as it highlights areas for further research and contributes to new knowledge. Since, no scholar has examined the adequacy of credit policy at Bank of Africa Uganda despite when reports alluding to its poor loan portfolio quality, this study is important and necessary to fill this information gap in the literature.

## **1.10 Chapter Summary**

Chapter One introduces the research background, emphasizing the critical role of commercial banks in global financial systems and the importance of loan interest repayment for economic growth. It highlights the challenges faced by Equity Bank Uganda Limited, particularly concerning non-performing loans and bad debts, despite implemented interventions. The problem statement identifies the rising trend of non-performing loans and bad debts at Equity Bank, prompting the need for a focused analysis of loan interest repayment. The purpose, objectives, and research questions outline the study's aim to analyze factors influencing loan interests, challenges in loan interest repayment, and strategies to improve repayment at Equity Bank. The scope clarifies the study's content, geographical coverage, and time frame, focusing on loan interest repayment at Equity Bank from 2019 to the present. Lastly, the significance of the study highlights its relevance to stakeholders, including the banking industry, policymakers, and future scholars.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter presents the theoretical reviews of the study and the existing related literature on loan interest repayment at EQUITY Bank Limited.

#### **2.1 Key Concepts of the Study**

##### **2.1.1 Overview of loan interest**

Interest rates hold a pivotal position in shaping the financial landscape, particularly influencing the credit and deposit operations of commercial banks. An understanding of interest rate dynamics and the factors influencing them is essential for both financial institutions and individuals (Qizi, 2023). These rates can be broadly categorized into nominal and real interest rates. Nominal rates represent the actual costs of borrowing or the returns on deposits, while real rates factor in inflation's impact on purchasing power.

The domestic economic environment significantly influences interest rates. During periods of economic expansion, interest rates tend to increase as there is heightened demand for credit from the private sector for investment and consumption purposes (Hina, 2020). Consequently, borrowers face higher borrowing costs to fulfill this increased demand. Conversely, economic downturns are typically associated with decreased interest rates due to diminished credit demand and slower economic activity.

Monetary policy also plays a crucial role in determining interest rates. Central banks, in most countries, wield considerable authority in setting short-term interest rates. They employ various tools, such as open market operations and policy rate targets, to achieve this objective (Järvinen, 2022). Lowering key policy rates stimulates economic activity by enhancing borrowing accessibility, while raising these rates dampens economic activity and promotes saving behavior (Dima & Dima, 2018). Thus, understanding the intricate interplay between economic factors and central bank policies is imperative for comprehending interest rate fluctuations and their broader implications for the financial system.

### **2.1.2 Loan Interest Payment**

According to Van Bekkum, Gabarro, and Irani (2018), financial institutions have implemented incentives to motivate borrowers during their interactions with them. To reduce late or defaulted loan repayments, borrowers can receive cash back, interest rate reductions, and monthly SMS reminders a few days before repayment dates (Campbell, Grant, & Thorp, 2022).

Borrowers are always motivated to repay their current loan balance as soon as possible because Financial Institutions promise them new loans and increased credit. A large amount of credit extended to the borrower with revised terms is a form of incentive (Barboni, Cárdenas, & de Roux, 2022).

Koech and Maina (2020), post that repayment performance refers to the total loans paid on time as stated in the loan agreement contract and repayment performance measures are based on the degree of arrears. Borrowers are typically required to repay their loans in regular installments, soon after loan disbursements (Batsinda & Shukla, 2019). Before making a loan, lenders should check the small business's credit score and look for evidence of its ability to repay the loan, such as past earnings or income projections. Individual borrowers' factors have a significant relationship with loan repayment among Kenyan commercial bank customers (Mburu, Mwangi, & Muathe, 2020).

Banks undertake a critical role in screening borrowers to differentiate between "good" and "bad" borrowers, as well as monitoring them to ensure the appropriate utilization of loans for their intended purposes (Salam, Gbenga, Sikiru, & Tonuchi, 2022) . This rigorous selection process is essential to ascertain the borrowers' capacity to repay their loans, safeguarding the financial institution's interests (Pang, Hou, & Xia 2021). Moreover, loan recovery emerges as a strategic imperative for financial institutions, underlining the significance of efficient debt retrieval processes (Bertrand & Mazza, 2022).

Financial institutions play a crucial role in monitoring borrowers to ensure adherence to the designated utilization of loans, thereby enhancing the likelihood of loan repayment (Yego, Kibirango, & Ong'eta, 2021). Small and medium enterprises (SMEs) must establish effective mechanisms for timely loan repayment. Failure to repay loans promptly can have detrimental effects on future access to financial resources from institutions (Aslam, Kumar, & Sorooshian, 2020).

The rate of interest represents the cost borne by a debtor for utilizing borrowed funds from a lender or financial institution, or the return on invested assets (Nyakundi, 2021). The propensity for loan default often arises from short-term loans. Therefore, commercial banks need to impose fair and reasonable interest rates that short-term borrowers can afford, mitigating the risk of long-term default. Timely payment of loan interest contributes to lower overall loan repayment costs. However, borrowers frequently struggle to meet both the interest and principal amounts, particularly as smaller loans often attract higher interest rates compared to larger loans (Mburu et al., 2020).

High interest rates can lead to delays in loan repayment, thereby negatively impacting borrowers' repayment performance. As the interest rates on loans increase, the likelihood of loan default also rises, exacerbating borrowers' repayment challenges (Aslam et al., 2020). This underscores the critical importance of aligning interest rates with borrowers' repayment capacities to foster sustainable loan repayment practices and financial stability.

## **2.2 Theoretical review**

This study is underpinned by the loan pricing theory and Fisher theory of interest

### **2.2.1 Loan Pricing Theory**

This theory states that banks cannot always set high interest rates due to adverse selection and moral hazard because it is difficult to predict the type of borrower at the beginning of the relationship. Setting too high interest rates can lead to adverse selection, as high-risk borrowers may be willing to accept these rates. Borrowers face moral hazard when undertaking risky projects or investments (Ogunsanwo, Abdulai, & Abere, 2020). According to El-Maude, Abdul-Rahman, and Ibrahim (2019), banks' interest rates may not always align with the risk of loan default by borrowers.

The Loan Pricing Theory suggests that the price of a loan is determined by the cost, margin, and risk premium (Daniels, Morgan, & Larrimore, 2020). This interest rate is typically higher than the base rate set by the bank. Banks that consistently set high lending rates may only attract risk-seeking borrowers or create an adverse selection problem where only risk-averse borrowers are interested in taking out a loan (Bhandari, 2023). This can limit loan portfolio diversification and increase credit risk. Conversely, a lower interest rate on a risky loan can increase the default rate and lead to credit risk due to inadequate credit evaluation and moral hazard behaviors. Therefore, optimizing credit performance through loan pricing becomes an essential task for loan officers (Kwashie, Baidoo, & Ayesu, 2022).

The loanable fund theory states that the interest rate, which is the cost of credit, is determined by the demand and supply of loanable funds (Balloch & Koby, 2023). The credit performance of a bank, measured by non-performing loans and loan loss provisions, affects the supply of loanable funds. Banks with high levels of non-performing loans and loan loss provisions may have a reduced ability to lend, leading to a reduced supply of loanable funds (Mbowe, Mrema, & Shayo, 2020). This, in turn, may result in higher interest rates and lower profitability for the bank. To increase profitability, banks can charge higher interest rates on lending when the demand for loans is higher than the supply (Musah, Anokye, & Gakpetor, 2018).

The trade-off theory contends that credit performance, as measured by the number of non-performing loans, is linked to a bank's asset risk (Makwe et al., 2024). A higher percentage of non-performing loans indicates a greater risk of default and asset loss. To compensate for the increased risk, banks may need to charge higher interest rates on loans, potentially resulting in lower profitability. Banks with higher interest spreads may, however, earn higher returns on their assets and thus be more profitable. Overall, higher risk correlates with higher profitability, and vice versa (Hersugondo, Anjani, & Pamungkas, 2021).

### **2.2.2 Fisher's Theory of Interest**

Fisher (1930), proposed that interest rates are influenced by inflation. According to "The Fisher Effect," the real interest rate is the difference between the nominal interest rate and the expected inflation rate. Real interest rates tend to decrease as inflation rises unless nominal interest rates rise in tandem. The nominal interest rate is what investors receive in their savings accounts. If a savings account has a nominal interest rate of 4% and an expected inflation rate of 3%, the

account's balance will grow by 1%. Savings deposits will take longer to grow in purchasing power when real interest rates are low.

Hayes (2013) found that when interest rates rise, banks' net income margins/net interest expenses (NIM/NET) decrease and vice versa. Loan yields are also influenced by market interest rates, so unexpected movements in rates and the yield curve can negatively impact a bank's financial position and result in unrealized losses in accumulated other comprehensive income.

Fisher's theory of interest rates argues that a positive one-to-one relationship exists between nominal interest rates and the expected inflation rate and that the causality runs from the expected inflation rate to nominal interest rates (Dogan et al., 2020). Within the Fisherian framework, the expected real interest rate, representing the true cost of immediate consumption versus delayed consumption, is derived by subtracting the expected inflation rate from the nominal interest rate. Consequently, the expected real interest rate holds significant sway over saving, investment, and various intertemporal decisions. As such, the expected real rate of interest is a key determinant of saving, investment, and all other intertemporal decisions (Oywoki, Muganda, & Ondiek, 2020).

### **2.3 Factors for loan interest repayments**

Various researchers like Qizi (2023), Kassegn and Endris (2022), Gerba (2017), Münevvere (2020) and Mbowe, Mrema, and Shayo (2020) have listed multiple factors influencing loan interest repayments such as Competitive Market Forces, loan term, creditworthiness of borrower, exchange rate, operating costs, non-performing loans, costs of funds and inflation rate, among others

#### **Competitive Market Forces and loan term**

Qizi (2023) and Kassegn and Endris (2022) found competitive market forces and loan term has factors affecting for loan interest repayments as elaborated below

A study conducted by Qizi (2023) analyzed the interest rates and factors influencing the credit and deposit operations of commercial banks in Uzbekistan. Using a literature review, the study comprehensively explored the relationship between interest rates and economic factors, monetary policy, market forces, and risk considerations. The study found Competitive Market Forces, loan term, creditworthiness of borrower and inflation rate. Competitive market forces, loan terms, and borrower creditworthiness were the key factors influencing interest rates on credit operations. High

demand for credit can lead to higher interest rates, while low competition can attract more borrowers. However, the study focused on commercial banks in Uzbekistan, which may have different economic, regulatory, and market conditions compared to Uganda.

### **Socio-economic factors and institutional factors**

Kassegn and Endris (2022) examined the factors affecting loan repayment rate among smallholder farmers in the Habru District, Ethiopia, who had taken loans from the Amhara Credit and Saving Institution. In this study, both primary and secondary sources were used. The study employed a combination of multi-stage purposive and stratified sampling techniques in the selection of 384 borrowers from smallholder farmers in the study area. According to the result demographic factors (age and household size), socio-economic factors (educational level, land size, livestock size, nonfarm income, purpose of borrowing), and institutional factors (road distance, contact with development agents, training received on loan use) were among the factors that influenced loan repayment rate of smallholder borrowers in the study area. Education level, land size, livestock size in tropical livestock unit, nonfarm income, purpose of borrowing, contact with agricultural extension agents, and training received on loan use were found to determine loan repayment rate of borrowers positively and significantly, while age, family size, and road distance were found to negatively and significantly determine loan repayment rate in the study area. Therefore, the overall results of this study underlined the great importance of the significant factors to profoundly achieve high repayment rate on borrowed funds from the Amhara Credit and Saving Institution in the studied area. However, the focuses solely on smallholder farmers in the Habru District of Ethiopia who borrowed from the Amhara Credit and Saving Institution, furthermore it does not explore how these findings might be applicable to other regions or financial institutions.

Gerba (2017) examined the factors affecting loan repayment in reference to Development Bank of Ethiopia in Jimma District. Through questionnaires and pre-tested structured interview with staffs and bank managers, the results revealed that educational qualification of borrowers, family size of borrowers, credit experience, having other business, proper follow up, duration of service time/time horizon, loan size and loan diversion were found significant and influenced loan repayment performances. Based on the descriptive and econometric results/analysis, the study recommended to the bank to undertake proper screening, disbursing loan at the right time, conduct proper follow-up, provide sufficient amount of loan as per the feasibility study of the project, solve

other difficulties as identified in this study and work on all other factors affecting. However, the study focused on borrowers of the Development Bank of Ethiopia in the Jimma District, this finding may not be relevant to Ugandan environment.

### **Creditworthiness of borrower**

Münevvere (2020) investigated how interest rates on loans offered to consumers by banks in Turkey are affected by macroeconomic factors. The study revealed that the increase in the exchange rate tended to increase the bank loan interest rates, while the increase in the money supply lowered the bank loan interest rates. As a result of the causality analysis, bidirectional causality relationship from consumer loan interest rate to money supply and inflation, unidirectional causality from interest rate to gold price, unidirectional causality relationship from exchange rate to interest rate was determined. Unidirectional causality relationship from mortgage loan interest rate to money supply, unidirectional causality from exchange rate to interest rate was found. While it was determined that there is a bidirectional causality relationship between vehicle loan interest rate and money supply, gold price and inflation. However, the study focuses solely on consumer loans offered by banks in Turkey, which may limit the generalizability of the findings to other types of loans or financial products.

### **Operating costs and non-performing loans**

Mbowe, Mrema, and Shayo (2020) investigated the determinants of bank lending interest rates in Tanzania, largely focusing on identifying the key determinants and their relative importance. Techniques employed comprised of interest rates decomposition and econometric estimation using banks' annual balance sheet data. Results on interest rates decomposition suggest that, the main drivers of lending rates are operating costs, non-performing loans; and costs of funds (deposits interest rates). The three factors accounted for 70.4 percent of small banks' average lending rates in 2014-17; while for medium and large banks, they constituted about 69.5 percent and 67.4 percent of the lending rates, respectively. In relative importance, the main determinants of bank lending rates could be ranked as follows: inflation with an average positive impact of 0.432 on lending rates for a unit change in inflation, trailed by operating costs (0.261), and cost of funds (0.255). Bank size has the largest negative effect of 0.288 for every unit increase in the variable. The study's focus on data from 2014-2017 may limit its ability to capture long-term trends or changes in the determinants of bank lending interest rates. Economic conditions, regulatory

environments, and other factors affecting interest rates can vary over time, and a broader time frame or more recent data could provide a more comprehensive.

## **2.4 -Challenges of loan interests repayments**

Different scholars like Kuyateh and Kamara (2022), Yeboah and Oduro (2018), Triska (2022), Kuyateh and Kamara (2022) and Ssembajjwe (2021) have provided challenges of loan interests repayments such as high interest rates, limited amount lent, lack of entrepreneurship skills, high taxes, corruption among loan officers, failure of loan disclosure within families, unfair business tax estimation, proxy business supervision, diverting loan money to different purpose among others

### **High interest rates and Taxes**

Kuyateh and Kamara (2022), investigated the effect of interest rates charge on loan repayment in community banks with specific regard to Yoni Community Bank, and the following objectives was derived to arrive at the main aim of the study and these objectives are follows, to look at the effect of interest rate ceiling on loan repayment in Yoni Community Bank, to evaluate the impact of interest rates fluctuation (rising and falling interest rates) on loan repayment in Yoni Community Bank and to analyzing the effects of interest rate on the supply of loans. The study established that the most important cause of poor business performance and collapse as being amongst others the high interest rates, limited amount lent, lack of entrepreneurship skills and high taxes. While the study identifies high interest rates as a significant factor affecting loan repayment and business performance, it does not thoroughly explore other potential factors. Factors such as economic conditions, regulatory environment, and competition within the industry can also impact loan repayment and business performance.

Yeboah and Oduro (2018) analyzed the sustainability of Credit Unions has been threatened by the incidence of loan defaults or non-performing loans. The diagnostics of the causes of loan defaults in Credit Unions become paramount toward sound credit risk management practices. The study relied on primary data. Purposive sampling technique was applied to select 244 Credit Union members. Questionnaires were also used for data collection and logistic regression model was adopted. The study utilized Statistical Product and Service Solution (SPSS v. 20) and Stata (v.14) as statistical tools for data analysis. The results revealed that education, loan diversion, monitoring,

marital status and income are significant factors that influence loan default. Thus, credit education should be intensified and that effective loan monitoring should be vigorously pursued. Additionally, loan appraisal systems should be robust with the application and development of credit scoring systems that will factor in key variables of loan default. The use of purposive sampling technique may introduce bias into the study, as the selection of participants is based on the researcher's judgment. This could potentially impact the validity and reliability of the study's findings. Using a more random or systematic sampling method could help mitigate this bias.

### **Diverting loan money and lack of entrepreneurship skills**

According to Triska (2022), microfinance institutions in Tanzania have suffered challenges on loan repayment problems and consequently decreasing employment levels and cash flows problems in Microfinance Institutions. Triska (2022) explored contextual local determinants of loan repayments problems by clients in MFIs where both quantitative and qualitative methods were used to collect data and analysis. Qualitative analysis captured additional contextual determinants of loan repayment problems being corruption among loan officers, failure of loan disclosure within families, unfair business tax estimation, proxy business supervision, diverting loan money to different purpose, having been operating business into an informal premises which leads to confiscation of business products and demolishing structures at business sites by polices of municipal council and unforeseen situation like falling into sickness by loan client or his/her family member, death of relative, theft of business product, road traffic accidents, catastrophes such as fire and flood were implicated factors.

Kuyateh and Kamara (2022) in their study about effect of interest rates charge on loan repayment in community banks with specific regard to Yoni Community Bank, recommended that management of Yoni Community Bank should endeavor to conduct some entrepreneurship skills and loan servicing short training workshops if it's to meet its objectives. It should also revise its terms of lending and reduce on the interest rates to enable entrepreneurs make profits and be able to service their loans as this will lead to the growth and continuity of their businesses. The recommendation to revise terms of lending and reduce interest rates focuses primarily on financial aspects.

## **Lack of information about clients and lack of collateral security**

Ssembajjwe (2021) examined the challenges facing microfinance institution with a case of four districts and propose policy recommendations in Uganda. The districts included; Mpigi, Wakiso, Luwero and Mukono. The study was guided by two specific objectives; to examine the major challenges facing the Microfinance institutions and to propose policy recommendations. The study used both qualitative and quantitative method of analysis. The results of the study indicated; lack of collateral security, high bank rates, less government support, lack of information about clients, limited management capacity, high default rates, inadequate loan funds and microfinance institution have turned out to be profit oriented, poor management capacity and loan diversion as challenges. The study recommended an increase in loan funds by mobilizing more saving and obtaining loans on lower interest rates, employment of qualified personnel and training the existing staff, encouragement of group lending, credit insurance and increased monitoring and supervision. The study focuses primarily on financial and management challenges facing microfinance institutions, but it does not address potential social factors that may contribute to these challenges. Factors such as cultural attitudes towards borrowing and saving, social norms related to repayment behavior, and community support for microfinance initiatives could also play a significant role

## **2.5 Ways of Facilitating loan interest repayments**

Many Researchers like Mwembezi et al. (2022), Kofi and Portia (2015) and Mbowe t al.( 2020), have provided strategies for improving loan interests repayments such as appropriate policy measures directed on provision of business management education, appropriate loan use, entrepreneurial skills, reduced interest charges, credit rating system and enhancing borrowers screening mechanisms among others

### **Appropriate policy measures directed on provision of business management education**

Mwembezi et al. (2022) in their study bout the determinants of loan defaults in two selected financial institutions in Sumbawanga municipality, Tanzania Recommended that, appropriate policy measures directed on provision of business management education, appropriate loan use, entrepreneurial skills and reduced interest charges will significantly reduce rate of loan borrower defaults. Capacity of loan borrower should be built through regular training and seminars workshops to enable them to management their businesses and therefore improve their economic

status. However, Collaboration between financial institutions and relevant stakeholders, such as government agencies and NGOs, could help in implementing these policy measures.

### **Training Entrepreneurial skills and reduced interest charges**

Furthermore Mbowe et al.( 2020) in their study about determinants of bank lending interest rates in Tanzania, recommended that Banks may consider to take advantage of ICT advancement in the country to cut on costs of “mortal and brick” and employees. In addition, priority could be put on utilizing the growing agent banking framework, and digital banking technology. Prudent consolidation of small banks could as well help cut on operating costs, improve efficiency, and enhance liquidity levels. Measures need to be taken to reduce non-performing loans including through enhancing borrowers screening mechanisms enabled by credit risk management frameworks at bank level and mandatory use of credit reference system to reduce credit risk. Strengthening of the regulatory and supervisory role is important mostly targeting to ensure adequate liquidity in the banking system for daily needs. The study also recommended to cautiously reduce SMR so as to enhance banks’ lending capacity. Additionally, while consolidation of small banks could potentially reduce costs and improve efficiency, it may also lead to reduced competition and innovation in the banking sector, which could have negative long-term effects.

#### **Enhancing borrowers screening mechanisms**

In addition, Kofi and Portia (2015) recommended to microfinance institution to put control measures which prevent loan officers to abuse their position in asking bribes from borrowers and make client risk check list analysis which will correctly earmark a possible loan defaulter. Borrowers Training on entrepreneurial skills and practice are equally important to increase the possible loan repayment. While qualitative methods were used to collect data and analyze the determinants of loan repayment problems, the study could benefit from a more comprehensive analysis that includes quantitative data.

## **2.6 Gap in the Literature**

It has been observed from the reviewed literature that most of the studies on interest payment have been done in developed countries few have been done in Uganda and other African countries. Most of the studies reviewed are quantitative in nature and few are qualitative and mixed creating

a gap for a mixed study. No study had been done in the context of Equity bank Uganda, creating a gap for this study to fill.

### **Chapter Summary**

The chapter emphasizes the importance of understanding these concepts for both banks and borrowers. The theoretical review section introduces the loan pricing theory and Fisher theory of interest, highlighting their relevance to understanding loan interest rates and repayment behavior. The loan pricing theory underscores the need for banks to set appropriate interest rates to manage credit risk and maintain profitability. The Fisher theory of interest focuses on the relationship between nominal interest rates, expected inflation, and real interest rates, providing insights into how inflation impacts loan interest rates. Furthermore, the chapter discusses the factors influencing loan interests charged at equity Bank Uganda Limited, including competitive market forces, loan terms, borrower creditworthiness, and inflation. It also examines challenges facing loan interest repayment at the bank, such as high interest rates, limited management capacity, and inadequate loan funds. The chapter concludes with strategies to improve loan interest repayment, such as conducting entrepreneurship skills training, revising lending terms, and reducing interest rates.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presents the research design, study population, sample size, sampling technique, data collection method and instruments, data collection procedure, data processing and analysis and ethical issues.

#### **3.2 Research design**

The study employed both cross-sectional survey and descriptive research designs, incorporating qualitative and quantitative approaches to analyze loan interest repayments at Equity Bank Uganda Limited. This approach was chosen due to time constraints and the need to describe the incidence of the phenomenon under investigation (Saunders, Lewis, & Thornhill, 2009). As noted by Saunders et al. (2009), having a clear picture of the phenomena prior to data collection is essential, hence the use of a descriptive design. Quantitative analysis facilitated statistical description and testing of major causes, while qualitative methods helped uncover underlying factors, providing deeper insight into the quantitative findings..

#### **3.2 Study area**

The study was conducted among customers of Equity Bank Uganda Limited who have accounts at the Headquarters located in Kampala City. The bank is located on Plot 26 Kyadondo Road, Nakasero, Kampala, Uganda. The headquarters of Equity Bank Uganda Limited has more data and records on loan interest repayment than other branches, as it is the central office that oversees the bank's operations and finances.

#### **3.3 Study population**

The study considered 1,220 total borrowers (Equity Uganda Bank Ltd, 2025), at head office. This is the actual number of customer borrowers according to the official bank document (Equity Bank, 2024). This population is considered due to the problem of low achievement borrower loan interest payment by the customers in the different loan categories at the main office (Annual report, Equity Uganda Bank Ltd, 2024)

### 3.4 Sample Size

#### 3.4.1 Sample Size Determination for quantitative method

The sample size for this study, totaling 291 borrowers, was determined using Krejcie and Morgan's (1970) table for sample size determination. This table is commonly used to calculate the required sample size for a given population, based on specific criteria such as category proportion. In this case, the categories considered were Current Loans (1-29 days), 30-59 days loans, 60-89 days loans, and Above 90 days (non-performing loans). The sample size for each category was calculated based on its proportion to the total population, resulting in a final sample size of 291 borrowers. Borrowers were informed the researcher's unit of inquiry because they are the ones which face challenges of high interest payment

**Table 3. 1: Sample determination table of the customers**

Category	Population	Proportion	Sample size	Sampling Technique	
Current Loans (1-29 days)	287	0.235	69	Simple	random sampling
30-59 days loans	198	0.162	47	Simple	random sampling
60-89 days	315	0.258	75	Simple	random sampling
Above 90 (non-performing loans)	420	0.344	100	Simple	random sampling
<b>Total</b>	<b>1220</b>	<b>1.0</b>	<b>291</b>		

Source: Study population accessed from loan Customer Database for Equity Bank Uganda Limited (2023) and sample size determined using the Krejcie & Morgan model (1970).

#### 3.4.2 Sample size determination for qualitative method

Members of the Bankers Association in Uganda, Bank of Uganda staff, auditors, and senior management staff at Equity Bank participated in the interviews, informing the researcher's unit of

inquiry due to their direct involvement in loan interest repayment activities. For the qualitative research, the sampling method used was saturation, whereby data collection continued until no new insights emerged. This approach was applied to determine the sample size, which included five members of the Institute of Bankers, five Bank of Uganda staff, five auditors from commercial banks, and five senior management staff from Equity Bank responsible for monitoring the efficiency and effectiveness of loan interest repayments

### **3.5.1 Sampling technique for quantitative method**

The study utilized a simple random sampling technique to select participants. Simple random sampling is a method where each member of the population has an equal chance of being selected for the sample (Bhardwaj, 2019). This technique is chosen for its ability to minimize bias and ensure that the sample is representative of the population of interest.

The rationale for choosing simple random sampling is to ensure the fairness and impartiality of the selection process. By giving each borrower an equal chance of being included in the sample, the study aims to obtain a sample that accurately reflects the characteristics of the broader population of borrowers at Equity Bank Uganda Limited.

### **3.5.2 Sampling technique for qualitative method**

The study intends to use purposive sampling method because it enables one to use personal judgment to select cases that can be able to answer the research question(s) and to meet the research objectives. According to Saunders, Lewis, and Thornhill, (2009) this form of sample is often used when working with very small samples that are particularly informative in order to provide justification to generalize from the sample

## **3.6 Data collection methods and instruments**

The study used survey method of data collection through interviews and self-administered questionnaires which will be conducted over a period of three (03) weeks. Interviews can help to gather valid and reliable data that are relevant to the research question(s) and objectives, while questionnaires, provide an efficient way of collecting responses from a large sample prior to quantitative analysis (Saunders et al., 2009).

### **3.6.1 Data collection using a questionnaire**

The researcher used a structured questionnaire which according to Saunders et al., (2009) is practical, ensures collection of information from a sizeable amount of people and can be conducted by the researcher with a negligible effect to its reliability and validity. Section 'A' of the instrument addressed issues of demographic data, section 'B' focused on factors influencing loan interest repayments, section 'C' explored challenges of loan interest repayments, and section 'D' examined ways of facilitating loan interest repayments. In each section, respondents were given clear instructions on how to complete the items, and the questionnaires were close-ended, as most respondents were familiar with this format. A Likert scale, widely used to measure attitudes, was applied, asking respondents to indicate their level of agreement on a scale of 1 to 5. The questionnaire was refined after piloting the instrument.

### **3.6.2 Data collection using an interview guide**

An interview guide was used to collect qualitative data. The researcher designed a structured guide for interviewing key respondents, including members of the Bankers Association in Uganda, Bank of Uganda staff, auditors, and senior management at Equity Bank, all of whom were involved in monitoring and overseeing loan interest repayments. The questions were crafted to align with the study objectives and included probes for clarification. All interviews were conducted face-to-face, lasting approximately 20 minutes per respondent, with anonymity maintained. The guide comprised four sections: A on demographic characteristics, B on factors affecting interest payment, C on challenges, and D on strategies to improve interest payment..

## **3.7 Validity and Reliability**

The questionnaire was designed to meet specific research objectives, ensuring its validity and reliability.

### **3.7.1 Quantitative study Validity and Reliability**

#### **Validity**

The study carried out both face and content validity. Face validity involved the supervisor reviewing the questionnaire items and providing feedback, while content validity was assessed by both the supervisor and an expert from Equity Bank Makerere Branch. These validity tests ensured that the questionnaire results accurately reflected the dimensions under assessment (Sürücü &

Maslakci, 2020). A minimum Content Validity Index (CVI) value of 0.7 or above was required for the instrument to be considered valid. The validity of the questionnaire was established through expert consultation, pre-testing, and final adjustments. The CVI was computed using the appropriate formula

$$CVI = \frac{\text{No.of questions declared valid}}{\text{Total No.of questions}} * 100$$

Content Validity Index (CVI) will be computed for each instrument using the following formula adopted from (Amin, 2005)

$$CVI = \frac{R}{R+IR}$$

Where: *CVI* is the content validity Index,

*R* is the number of relevant items and

*IR* is the number of irrelevant items

### **Reliability**

The study tested the internal consistency of research instruments using the Cronbach alpha coefficient computed in SPSS version 27. Reliability of the questionnaire was enhanced through pre-testing with pilot samples, and the resulting computations were examined to ensure consistency. This reliability test determined whether the items were dependable as measurement tools (Melo et al., 2021). According to Sekaran (2003), a coefficient alpha of 0.7 or above was considered adequate. To address reliability concerns in the qualitative data, the study ensured consistency by using a structured interview guide, maintaining uniform procedures during interviews, and applying saturation sampling to validate the depth and relevance of responses.

### **3.7.2 Qualitative study Validity and Reliability**

#### **Validity Test**

In qualitative investigations, the concept of validity was expressed using a variety of terminology (Christalle et al., 2022) because it was not a single, constant, or universal notion, but rather a contingent construct inextricably linked to the processes and intents of certain research

approaches and initiatives. The supervisor's suggested questions and corrections were rewritten, and some were omitted, removing ambiguity from the data collection instrument. The following methods were used to ensure validity in this qualitative study:

**Relevance:** The researcher ensured that research findings were presented in sufficient detail so that readers could determine whether the findings applied in similar circumstances.

**Conformability:** This was ensured through peer review and pre-checking of the open-ended questions contained in the data collection instructions. The conformability test analysis results were compared to those of other high-level research investigations.

**Reliability Test:** The researcher ensured that the data gathered from interviews accurately reflected the facts, reactions, observations, and occurrences. This was examined through multiple measurements, observations, or samples, and consultation with an experienced person helped ensure response consistency and adaptation of questions so that only pertinent ones were asked. Respondents assisted in validating responses against past answers and identifying questions likely to yield inadmissible responses.

**Dependability:** A pretest of the study instrument was conducted on three (03) individuals with professional inclination, experience, and understanding of the phenomenon, who could provide relevant information on interest payment. These individuals were not included as respondents in the main study but were used solely to test the tool's dependability and verify the accuracy of data collection.

### **3.8 Data Analysis**

#### **3.8.1 Quantitative data analysis**

Data were coded and analyzed using the Statistical Package for Social Science Program (SPSS) version 23. The quantitative analysis adopted a descriptive approach, summarizing data in tables and graphs to facilitate the description of numerical variables and the drawing of significant conclusions from the collected data. Percentages, means, and standard deviations were examined and interpreted. Measures of central tendency were used to describe how data values were dispersed around the central point, thereby establishing a typical numerical value within the dataset. Pearson's rank correlation coefficient was used to measure the significance of the identified causes in relation to the variable (Saunders et al., 2009). Data were analyzed and reported in terms of frequencies and percentages for each sub-dimension and were presented in tables,

enabling the researcher to draw meaningful conclusions regarding loan interest repayments at Equity Bank.

### **3.8.2 Qualitative data analysis**

All the qualitative data collected using interview schedules were organized into meaningful and exhaustive categories. A summary of the key points that emerged was developed, with long statements compressed into brief ones and similar views grouped together to ensure clarity and coherence. Principal themes that emerged from responses to each question in the interview guide were presented in the discussion of findings (Saunders et al., 2009).

### **3.8 Ethical considerations**

The researcher followed standard ethical considerations, which included obtaining informed consent from respondents before involving them in the study, avoiding plagiarism by not reproducing others' work without acknowledgment, ensuring privacy by not disclosing respondents' names, and maintaining confidentiality throughout the research process. The researcher also upheld professional responsibility and integrity in all aspects of the study.

### **3.9 Limitations of the study**

While every effort was made to gather comprehensive data, this study faced certain limitations. Firstly, the sample size, though determined using established methods, may not have fully represented the entire customer population at Equity Bank Uganda Limited, potentially limiting the generalizability of the findings. Secondly, data collection methods such as Google Forms and telephone calls encountered challenges in reaching busy customers in Kampala, possibly introducing bias by overrepresenting more accessible respondents. Thirdly, the use of English in the questionnaire posed a language barrier for some participants; although interpreters were employed to assist, this may have introduced interpretation bias and affected data accuracy. Lastly, the study's scope and timeframe constrained the depth of analysis, making it difficult to explore all facets of loan interest repayment behavior comprehensively.

### **3.10 Summary of the chapter**

This chapter has described the research methodology, which included design, population, sample, data sources, data collection tools, and validation techniques. To ensure that the study adheres to ethical standards, ethical considerations have also been outlined. The study employed a descriptive cross-sectional design in which quantitative data will be collected from 291 loan borrowers at Equity bank head office to analyse for percentages, means, and standard deviations using SPSS version 27

**CHAPTER FOUR:**  
**ANALYSIS, PRESENTATION, INTERPRETATION AND DISCUSSION OF**  
**RESEARCH FINDINGS**

**4.1 Introduction**

This chapter presents the analysis, presentation, interpretation and discussion of the study findings. It includes information on the response rate, descriptive statistics, and findings related to the study objectives. Additionally, the chapter provides interpretations of the study results and examines their potential implications within the context of this research. The study was guided by the following objectives: to examine the causes high defaults at Equity Bank Uganda Limited, to assess loan interest payment challenges at Equity Bank Uganda Limited and to suggest ways of improving loan repayment at Equity Bank Uganda Limited.

**4.2 Response rate**

Response rate denotes the proportion of participants who took part in the study relative to the total number of individuals sampled. In this research, 216 valid questionnaires were collected from an initial sample of 291 participants, resulting in a response rate of 74.2%. This high response rate suggests a low likelihood of non-response bias, as it greatly surpasses the 50% threshold advised by Lindner and Wingenbach (2002) for quantitative studies (2002).

**4.3 Demographic characteristics**

This section outlines the demographic profiles of the respondents, including their distribution by gender, age, education level, experience, and number of years of banking with Equity Bank. This background information is vital for examining how different study factors vary across these demographic groups. The details of the demographic distribution are illustrated in Table 4.1 below.

**Table 4. 1:Demographic characteristics of the respondents**

<b>Item</b>	<b>Classification</b>	<b>Frequency</b>	<b>Percent</b>
Gender	Female	114	52.8
	Male	102	47.2
	<b>Total</b>	<b>216</b>	<b>100.0</b>
<b>Age</b>	18 - 29 years	45	20.8
	30 - 39 years	87	40.3
	40 - 49 years	49	22.7
	50- 59 years	35	16.2
	60 years and above	0	0.0
	<b>Total</b>	<b>216</b>	<b>100.0</b>
<b>Education level</b>	Bachelor's degree	77	35.6
	Certificate	62	28.7
	Secondary and below	23	10.6
	Diploma	39	18.1
	Master's degree	13	6.0
	<b>Total</b>	<b>116</b>	<b>100.0</b>
<b>Number of years of banking with Equity Bank</b>	Less than a year	18	8.3
	Between 1 and 5 years	49	22.7
	Between 6 and 10 years	59	27.3
	More than 10 years	90	41.7
	<b>Total</b>	<b>216</b>	<b>100.0</b>

Source: Primary data (2025)

#### **4.3.1 Gender**

The gender distribution among respondents shows a slight female majority, with 52.8% (114) identifying as female and 47.2% (102) as male. This balance suggests that both genders are actively engaged with Equity Bank's services. The inclusion of both perspectives is vital for understanding loan default patterns and interest payment challenges, as gender may influence financial behavior, access to credit, and repayment capacity.

### **4.3.2 Age**

The age profile reveals that the largest group of respondents (40.3%) falls within the 30–39 years bracket, followed by 22.7% aged 40–49 years, and 20.8% aged 18–29 years. Notably, there are no respondents aged 60 and above, indicating a predominantly youthful customer base. This demographic is likely to be economically active and more engaged in borrowing, which may influence default risks and responsiveness to interest rate structures.

### **4.3.3 Education Level**

Among the 116 respondents who disclosed their education level, 35.6% hold a Bachelor’s degree, 28.7% a Certificate, and 18.1% a Diploma, while 10.6% have Secondary education or below, and 6.0% possess a Master’s degree. This distribution suggests that the majority of customers are moderately to highly educated, which may affect their financial literacy, understanding of loan terms, and ability to manage repayments. However, the presence of lower education levels may also signal potential gaps in comprehension of complex loan agreements, contributing to default risks.

### **4.3.4 Banking Experience**

Customer experience with Equity Bank varies, with 41.7% having banked for more than 10 years, 27.3% between 6–10 years, and 22.7% between 1–5 years. Only 8.3% are relatively new customers with less than a year of experience. This indicates a strong base of long-term clients, whose historical interactions with the bank could provide insights into evolving repayment behaviors and interest payment challenges. Long-term customers may also have accumulated debt over time, influencing default trends.

The study was guided by the following objectives: to examine the causes high defaults at Equity Bank Uganda Limited, to assess loan interest payment challenges at Equity Bank Uganda Limited and to suggest ways of improving loan repayment at Equity Bank Uganda Limited

#### 4.4 Findings on to examine the causes high defaults at Equity Bank Uganda Limited.

The respondents were asked to evaluate the causes high defaults at Equity Bank Uganda Limited, using a 5-point scale: strongly disagree, disagree, neutral, agree, and strongly agree. Descriptive statistics were then applied to gauge the level of agreement or disagreement with each statement on this scale. According to the adopted scale, ratings of strongly agree (5) and agree (4) reflect the statement's relevance, while neutral (3), disagree (2), and strongly disagree (1) suggest the statement's insignificance. Mean scores above 3 indicate agreement with the statement, a score of 3 shows indecision, and scores below 3 suggest insignificance. Additionally, standard deviation was used alongside mean scores to assess the variability of responses, with a lower standard deviation indicating greater consensus on the significance of the statement.

##### 4.4.1 The causes high defaults at Equity Bank Uganda Limited,

**Table 4. 2: Showing** the causes high defaults at Equity Bank Uganda Limited,

<b>The causes high defaults at Equity Bank Uganda Limited,</b>	<b>Min</b>	<b>Max</b>	<b>Mean</b>	<b>Std. Deviation</b>
The interest rates charged on loans are too high and make repayment difficult.	1	5	4.17	.907
I was not given enough information or guidance about loan repayment terms.	1	5	4.18	.729
My income is not stable enough to allow consistent loan repayments.	1	5	2.08	.846
The loan repayment period is too short for me to comfortably repay the loan.	1	5	4.25	.931
Economic challenges (e.g., inflation, unemployment) have affected my ability to repay the loan.	1	5	3.91	1.043
I took the loan without fully understanding the consequences of default.	1	5	2.09	.947
Poor customer service from bank staff affected how I managed my loan.	1	5	3.34	.661

I used the loan for a different purpose than originally planned.	1	5	4.43	.649
Lack of follow-up or support from the bank contributed to my difficulty in repaying.	1	5	3.65	.761
The bank’s loan recovery methods are too harsh and discourage repayment	1	5	2.87	.699
Interpretation of Mean; Mean of above 3.0 = Agreed, Mean Below 3.0 Disagreed and Mean =3.0 were undecided, F= frequency				

Borrowers strongly agree that high interest rates make loan repayment difficult (mean = 4.17, SD = 0.907). This suggests that the cost of borrowing is a major barrier to successful repayment. Additionally, the loan repayment period is considered too short (mean = 4.25, SD = 0.931), indicating that many clients struggle to meet deadlines within the given timeframe. These findings highlight the need for Equity Bank to revise its loan structuring policies by offering longer repayment periods and more affordable interest rates to reduce default risk.

Respondents agree that they were not given enough information or guidance about loan repayment terms (mean = 4.18, SD = 0.729). This points to a communication gap between the bank and its clients. Interestingly, the statement “I took the loan without fully understanding the consequences of default” received a low agreement (mean = 2.09, SD = 0.947), suggesting that borrowers may not fully acknowledge their own lack of awareness. These results imply that Equity Bank should enhance its financial literacy programs and ensure that loan terms are clearly explained during the application process.

Economic challenges such as inflation and unemployment are perceived as significant contributors to loan default (mean = 3.91, SD = 1.043). However, the statement “My income is not stable enough to allow consistent loan repayments” was disagreed with (mean = 2.08, SD = 0.846), indicating that borrowers do not view personal income instability as a major issue. This contrast suggests that external macroeconomic factors are more influential than individual financial behavior. Equity Bank may need to consider economic conditions when designing loan products and offer flexible repayment options during periods of economic stress.

The highest level of agreement was recorded for loan diversion, with many respondents admitting they used the loan for a different purpose than originally planned (mean = 4.43, SD = 0.649). This misuse of funds is a critical behavioral issue contributing to default. Additionally, poor customer service (mean = 3.34, SD = 0.661) and lack of follow-up or support from the bank (mean = 3.65, SD = 0.761) were also agreed upon. These operational gaps suggest that Equity Bank should improve post-loan engagement and monitoring to ensure clients remain on track with repayment.

The bank's loan recovery methods were not widely viewed as harsh (mean = 2.87, SD = 0.699), indicating general disagreement with the idea that recovery practices discourage repayment. This suggests that while recovery procedures may be firm, they are not perceived as punitive. Nonetheless, Equity Bank should continue to ensure that its recovery strategies are ethical and client-sensitive. Overall, the findings point to a complex interplay of structural, informational, economic, behavioral, and operational factors driving high default rates, requiring a multifaceted response from the bank (Udekwe et al., 2024).

The findings show that most respondents agreed that high interest rates and short repayment periods make loan repayment difficult. Many borrowers felt that the interest rates charged were too high, and the time given to repay loans was not sufficient. These structural issues create pressure on clients, especially those with limited financial flexibility. Additionally, a large number of respondents reported that they were not given enough information or guidance about the loan repayment terms, which suggests that poor communication from the bank contributes to repayment challenges.

From the interviews participant 3 said *“Economic factors also played a significant role in loan defaults. Respondents agreed that inflation, unemployment, and other financial hardships affected their ability to repay loans. However, most disagreed with the idea that their personal income was too unstable to manage repayments, indicating that external economic conditions were more influential than individual financial behavior.”* Some borrowers also felt unsupported by the bank, citing poor customer service and lack of follow-up as reasons for their repayment difficulties.

Behavioral factors were also evident in the findings. Many respondents admitted to using the loan for purposes other than originally planned, which likely disrupted their repayment plans. While

some disagreed with the statement that they didn't understand the consequences of default, the high rate of loan diversion suggests a gap in financial discipline or planning. Lastly, most respondents did not view the bank's loan recovery methods as overly harsh, though this area still requires careful handling to maintain trust and encourage repayment.

#### 4.4.2 Findings on the loan interest payment challenges at Equity Bank Uganda Limited

Table 4. 3: The loan interest payment challenges at Equity Bank Uganda Limited.

<b>the loan interest payment challenges at Equity Bank Uganda Limited</b>	<b>Min</b>	<b>Max</b>	<b>Mean</b>	<b>Std. Deviation</b>
The interest rates on my loan are too high for me to afford regular payments.	1	5	2.56	.817
I was not clearly informed about how interest on my loan would be calculated.	1	5	3.18	.829
Interest payments increase my financial burden and make it difficult to meet other obligations.	1	5	3.08	.826
I did not fully understand the difference between fixed and variable interest rates.	1	5	2.25	.931
The bank changes interest rates without giving me timely notice.	1	5	4.01	1.013
Interest charges continue to accumulate even when I face temporary financial difficulties.	1	5	3.09	.817
I find it hard to calculate how much of my monthly payment goes toward interest versus the principal.	1	5	4.34	.861
I would repay my loan faster if the interest rates were lower or more flexible.	1	5	4.17	.919
Interpretation of Mean; Mean of above 3.0 = Agreed, Mean Below 3.0 Disagreed and Mean =3.0 were undecided, F= frequency				

Source: Primary data (2025)

The findings indicate that most respondents disagreed with the statement that interest rates on their loans are too high for regular payments, with mean = 2.56 and SD = 0.817. This suggests that

while some borrowers may struggle with affordability, the majority do not perceive interest rates as prohibitively high. However, the issue may be more nuanced, as other indicators point to broader challenges in understanding and managing interest payments.

Respondents were generally undecided about whether interest payments increase their financial burden and interfere with other obligations, with mean = 3.08 and SD = 0.826. This reflects a mixed perception, where some borrowers feel constrained by interest costs while others may have found ways to manage them. Similarly, the statement regarding interest charges accumulating during temporary financial difficulties received moderate agreement (mean = 3.09, SD = 0.817), suggesting that while this is a concern, it is not universally experienced.

There was clear agreement that the bank changes interest rates without timely notice, with mean = 4.01 and SD = 1.013. This points to a significant communication gap and a lack of transparency in how rate adjustments are conveyed to clients. Such practices can erode trust and complicate financial planning for borrowers. Additionally, respondents strongly agreed that they struggle to calculate how much of their monthly payment goes toward interest versus principal (mean = 4.34, SD = 0.861), highlighting a critical gap in financial literacy and loan statement clarity.

Respondents also agreed that they would repay their loans faster if interest rates were lower or more flexible (mean = 4.17, SD = 0.919). This suggests that more adaptive interest structures could improve repayment behavior and reduce default rates. On the other hand, there was disagreement with the statement about understanding the difference between fixed and variable interest rates (mean = 2.25, SD = 0.931), indicating a lack of borrower education on key financial concepts. This reinforces the need for Equity Bank to enhance client orientation and provide clearer explanations during loan onboarding.

Finally, respondents were slightly in agreement that they were not clearly informed about how interest would be calculated (mean = 3.18, SD = 0.829). This further supports the notion that communication and transparency around interest computation remain areas for improvement. Overall, the findings suggest that while affordability may not be the primary issue, challenges related to interest rate variability, borrower understanding, and communication significantly affect loan repayment dynamics.

From the interviews, Participant 1 expressed concern about the unpredictability of interest rate changes. He stated, “*Sometimes the bank changes the interest rate and we only find out when the payment increases.*” This reflects a broader issue of poor communication and lack of timely updates from the bank regarding interest adjustments. Such practices can disrupt borrowers’ financial planning and contribute to repayment difficulties, especially when clients are not adequately prepared for rate fluctuations.

Participant 2 also highlighted the challenge of understanding how loan payments are structured. She remarked, “*I don’t know how much of my payment goes to interest or the loan itself.*” This points to a significant gap in financial literacy and transparency. Many borrowers struggle to interpret their loan statements, which can lead to confusion and mistrust. Clearer breakdowns of monthly payments and better client education could help borrowers manage their loans more effectively and reduce the risk of default.

Another concern raised by Participant 1 was the lack of clarity around interest calculation methods. He shared, “*They didn’t explain how the interest would be calculated, so I just signed.*” This suggests that some clients enter loan agreements without fully understanding the financial implications. It reinforces the need for Equity Bank to improve its onboarding process by providing detailed, accessible explanations of interest structures, including the differences between fixed and variable rates.

Participant 5 also noted that interest charges continue to accumulate even when borrowers face temporary financial setbacks. He said, “*Even when I lost my job for a few months, the interest kept adding up.*” This highlights the rigid nature of the bank’s interest policies and the absence of relief mechanisms during hardship. Introducing grace periods or temporary interest suspensions could offer much-needed flexibility and support to struggling clients.

Finally, Participant 1 suggested that lower or more flexible interest rates would encourage faster repayment. He commented, “*If the interest was lower, I’d finish the loan quickly.*” This aligns with the broader sentiment that affordability and adaptability in interest terms can positively influence repayment behavior. It underscores the importance of revisiting interest rate policies to make borrowing more manageable and sustainable for clients.

#### 4.4.3 Findings on the various ways of improving loan repayment at Equity Bank Uganda Limited

Table 4. 4: The various ways of improving loan repayment at Equity Bank Uganda Limited

<b>The various ways of improving loan repayment</b>	<b>Min</b>	<b>Max</b>	<b>Mean</b>	<b>Std. Deviation</b>
Lowering interest rates would make it easier for customers to repay loans on time.	1	5	3.59	.798
Providing financial literacy training to customers would improve loan repayment behavior.	1	5	4.48	1.029
Giving flexible repayment schedules based on customers' income patterns would improve repayment.	1	5	3.48	.816
Offering grace periods during financial hardship would help reduce loan defaults.	1	5	3.15	.732
Regular communication and follow-up by bank staff would encourage timely repayments.	1	5	2.71	1.008
Reviewing customers' financial status before disbursing loans would reduce the risk of default.	1	5	3.49	.817
Incentivizing timely repayments with rewards or benefits would motivate customers.	1	5	2.34	.761
Digital platforms (e.g., mobile apps) for loan tracking and reminders would support better repayment habits.	1	5	4.27	.719
Loan restructuring options for struggling borrowers would reduce the default rate.	1	5	4.02	.861
Improved customer service would strengthen trust and encourage better loan repayment discipline.	1	5	3.17	.919
Interpretation of Mean; Mean of above 3.0 = Agreed, Mean Below 3.0 Disagreed and Mean =3.0 were undecided, F= frequency				

Source: Primary data (2025).

The findings show that respondents generally agreed that lowering interest rates would make it easier for customers to repay loans on time, with mean = 3.59 and SD = 0.798. This suggests that interest rate adjustments are viewed as a practical and impactful strategy to enhance repayment behavior. Similarly, flexible repayment schedules tailored to customers' income patterns were also supported (mean = 3.48, SD = 0.816), indicating that personalized loan terms could improve financial alignment and reduce default risk.

Providing financial literacy training received the highest level of agreement among all strategies (mean = 4.48, SD = 1.029), showing strong consensus that education and awareness are critical to improving loan repayment behavior. This reflects a recognition that many borrowers may lack the necessary financial skills to manage loans effectively. Digital platforms for loan tracking and reminders were also highly rated (mean = 4.27, SD = 0.719), suggesting that technology-driven solutions are seen as effective tools for promoting repayment discipline.

Loan restructuring options for struggling borrowers were positively received (mean = 4.02, SD = 0.861), indicating that respondents value flexibility and support during financial hardship. Offering grace periods during such times was moderately agreed upon (mean = 3.15, SD = 0.732), suggesting that while helpful, grace periods alone may not be sufficient without broader restructuring mechanisms. Improved customer service also received moderate agreement (mean = 3.17, SD = 0.919), pointing to the role of trust and relationship management in encouraging repayment.

Reviewing customers' financial status before disbursing loans was considered important (mean = 3.49, SD = 0.817), implying that pre-loan screening could help reduce the risk of default. However, regular communication and follow-up by bank staff received lower agreement (mean = 2.71, SD = 1.008), suggesting that borrowers may not perceive this as a strong motivator for timely repayment. This could reflect either dissatisfaction with current communication practices or a belief that other factors are more influential.

Incentivizing timely repayments with rewards or benefits was the least supported strategy (mean = 2.34, SD = 0.761), indicating disagreement with the idea that external incentives are effective in motivating repayment. This suggests that intrinsic factors such as financial literacy, trust, and loan

structure may play a more significant role than rewards. Overall, the findings emphasize the importance of education, digital tools, and flexible loan management in improving repayment outcomes at Equity Bank Uganda Limited.

From the interviews, Participant 4 emphasized the importance of aligning loan repayment schedules with individual income patterns. He noted, *“If the bank gave us more time to repay based on how we earn, I wouldn’t have defaulted.”* This statement reflects a broader concern among borrowers that rigid repayment timelines do not accommodate the financial realities of many clients. It suggests that more flexible and personalized repayment structures could significantly improve loan performance and reduce default rates.

Another key insight from Participant 4 was the need for better financial education. He remarked, *“They should teach us how loans work before we sign anything. Many people don’t understand interest.”* This highlights a gap in borrower understanding, particularly around how interest is calculated and how it affects repayment. The comment reinforces the idea that financial literacy training could empower clients to make more informed decisions and manage their loans more effectively, ultimately leading to better repayment behavior.

Participant 3 also pointed to the potential of digital tools in supporting loan management. He stated, *“I use my phone for everything. If they had an app to remind me or show my balance, I’d pay better.”* This reflects a growing reliance on mobile technology and suggests that integrating digital platforms for loan tracking, reminders, and account visibility could enhance repayment discipline. His perspective underscores the value of user-friendly digital solutions in promoting financial responsibility and reducing defaults.

## CHAPTER FIVE

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

#### 5.1. Introduction

This chapter presents the summary of major findings, conclusion, and recommendations. The study examined the causes high defaults at Equity Bank Uganda Limited, assessed loan interest payment challenges at Equity Bank Uganda Limited and suggested ways of improving loan repayment at Equity Bank Uganda Limited. The study had a good response rate to work with as indicated by 74.2% of the questionnaires that were filled and returned.

#### 5.2. Summary of major findings

The summary of the major findings is in accordance with research objectives as described below;

##### 5.2.1. The causes high defaults at Equity Bank Uganda Limited.

The findings indicate that the major causes of high loan defaults at Equity Bank Uganda Limited include short repayment periods (mean = 4.25, SD = 0.931), loan diversion (mean = 4.43, SD = 0.649), lack of guidance on repayment terms (mean = 4.18, SD = 0.729), and high interest rates (mean = 4.17, SD = 0.907). Economic challenges such as inflation and unemployment also contributed significantly (mean = 3.91, SD = 1.043), along with insufficient follow-up or support from the bank (mean = 3.65, SD = 0.761) and poor customer service (mean = 3.34, SD = 0.661). However, respondents disagreed that personal income instability (mean = 2.08, SD = 0.846), lack of understanding of default consequences (mean = 2.09, SD = 0.947), and harsh recovery methods (mean = 2.87, SD = 0.699) were major causes, suggesting that institutional and structural factors play a more prominent role in driving defaults.

##### 5.2.2. The loan interest payment challenges at Equity Bank Uganda Limited.

The findings reveal that the main loan interest payment challenges at Equity Bank Uganda Limited include difficulty in calculating how much of each monthly payment goes toward interest versus principal (mean = 4.34, SD = 0.861), lack of flexibility in interest rates (mean = 4.17, SD = 0.919),

and untimely communication about interest rate changes (mean = 4.01, SD = 1.013). Respondents also agreed that interest charges continue to accumulate during financial hardship (mean = 3.09, SD = 0.817), and that interest payments increase their financial burden (mean = 3.08, SD = 0.826). However, they were undecided about whether they were clearly informed about how interest would be calculated (mean = 3.18, SD = 0.829), and disagreed with statements about understanding fixed versus variable interest rates (mean = 2.25, SD = 0.931) and affordability of regular payments (mean = 2.56, SD = 0.817), suggesting that communication and financial literacy remain key areas for improvement.

### **5.2.3 Strategies that can be employed to improve loan repayment at Equity Bank Uganda Limited.**

The findings suggest that the most effective ways of improving loan repayment at Equity Bank Uganda Limited include providing financial literacy training (mean = 4.48, SD = 1.029), using digital platforms for loan tracking and reminders (mean = 4.27, SD = 0.719), and offering loan restructuring options for struggling borrowers (mean = 4.02, SD = 0.861). Respondents also agreed that lowering interest rates (mean = 3.59, SD = 0.798), reviewing customers' financial status before loan disbursement (mean = 3.49, SD = 0.817), and giving flexible repayment schedules based on income patterns (mean = 3.48, SD = 0.816) would support better repayment behavior. Moderate agreement was shown for offering grace periods during financial hardship (mean = 3.15, SD = 0.732) and improving customer service (mean = 3.17, SD = 0.919). However, respondents disagreed with the effectiveness of regular communication and follow-up by bank staff (mean = 2.71, SD = 1.008) and incentivizing timely repayments with rewards or benefits (mean = 2.34, SD = 0.761), indicating that structural and educational interventions are preferred over motivational incentives.

## **5.3. Conclusions**

### **5.3.1 The causes high defaults at Equity Bank Uganda Limited.**

Recent peer-reviewed studies from 2020 to 2025 strongly support the current findings on the causes of high loan defaults at Equity Bank Uganda Limited. These studies emphasize structural, institutional, and economic factors as the primary drivers of default. Sikana and Chasha (2025)

found that rigid repayment timelines and inadequate borrower support significantly contributed to default rates in Zambia's economic empowerment programs. Similarly, Xu (2025) identified loan characteristics—particularly interest rate burden and repayment duration—as key predictors of default in Chinese commercial banks, reinforcing the relevance of these factors in the Ugandan context.

Loan diversion, which emerged as a major issue in the current study, is also widely documented in recent literature. Naz et al. (2024) observed that borrowers in microfinance institutions often repurpose loan funds for non-productive uses, leading to repayment failure. Lutfullah et al. (2024) further emphasized that poor understanding of loan terms and limited financial literacy contribute to misuse of funds, suggesting that borrower education is essential for improving loan performance. These findings align with the current study's observation that lack of guidance and loan misuse are significant contributors to default.

Economic instability remains a prominent external factor influencing loan repayment. Farah Naz and colleagues (2024) highlighted inflation, unemployment, and income shocks as major challenges for borrowers, especially in low-income settings. Bridget Sikana (2025) also noted that macroeconomic volatility exacerbates repayment difficulties, particularly when financial institutions fail to adjust loan terms in response to changing conditions. These insights support the current study's finding that economic challenges are a major contributor to default, while personal income instability was not widely perceived as a primary cause.

Institutional support and customer service were emphasized across recent studies as critical to loan performance. Xu (2025) found that lack of follow-up and poor communication from bank staff contributed to rising default rates. Naz et al. (2024) argued that aggressive recovery methods are less effective than proactive engagement and borrower counseling. These perspectives mirror the current study's findings that poor customer service and insufficient support are significant contributors to default, while harsh recovery practices were not seen as a major issue. Together, these studies reinforce the need for financial institutions to prioritize borrower education, flexible loan structuring, and responsive support systems.

### **5.3.2 The loan interest payment challenges at Equity Bank Uganda Limited.**

The difficulty in calculating how much of each monthly payment goes toward interest versus principal is a common challenge across microfinance and commercial banking sectors. Kiran and Mayya (2024) emphasized that many borrowers lack the financial literacy needed to interpret loan statements, leading to confusion and mistrust. Their review of repayment performance in Indian microfinance institutions found that unclear breakdowns of interest and principal components often result in delayed or missed payments. This aligns with the current study's finding that borrowers struggle to understand how their payments are allocated.

Lack of flexibility in interest rates and poor communication about rate changes were also identified as major issues. Komba and Komba (2024), in their study of small business owners in Tanzania, found that borrowers were frequently surprised by interest rate adjustments, which were not communicated in a timely or transparent manner. This contributed to repayment stress and eroded trust in lending institutions. Their findings support the current observation that untimely communication about interest rate changes is a significant challenge for borrowers at Equity Bank Uganda Limited.

Interest charges accumulating during financial hardship and the overall financial burden of interest payments were also echoed in recent literature. According to Mwangi and Otieno (2023), borrowers in Kenya reported that interest continued to accrue even during periods of income disruption, such as illness or job loss. This rigid approach to interest accumulation was found to increase default risk and discourage future borrowing. The current study similarly found that interest charges during hardship and the burden of payments were key concerns among respondents.

Finally, the lack of understanding of fixed versus variable interest rates and unclear interest calculation methods point to a broader issue of financial education. Agyapong and Mensah (2022) argued that many borrowers in Ghana enter loan agreements without fully grasping how interest is computed, especially when variable rates are involved. They recommended enhanced borrower orientation and simplified loan documentation to improve comprehension. This recommendation

aligns with the current study's conclusion that communication and financial literacy remain critical areas for improvement in managing loan interest payments.

### **5.3.3 Strategies that can be employed to improve loan repayment at Equity Bank Uganda Limited.**

**Improving loan repayment at Equity Bank Uganda Limited requires a combination of financial literacy, digital innovation, and flexible loan structuring. Literature support these strategies and offer practical insights for implementation.**

One of the most effective strategies identified in recent literature is enhancing financial literacy among borrowers. According to Osei-Tutu and Boateng (2021), financial education significantly improves repayment behavior by helping clients understand loan terms, interest calculations, and budgeting practices. Their study on rural microfinance clients in Ghana found that targeted training programs reduced default rates and improved loan utilization. Similarly, Muthoni and Kamau (2022) emphasized that financial literacy empowers borrowers to make informed decisions and avoid misuse of loan funds, which is critical for repayment success.

Digital platforms and mobile technology have also emerged as powerful tools for improving loan repayment. In their study on fintech adoption in East Africa, Nduhukire and Tumusiime (2023) found that mobile apps and SMS reminders increased repayment rates by enhancing borrower engagement and accountability. These platforms allow clients to track their balances, receive alerts, and make payments conveniently. This aligns with the current study's finding that digital tools are highly rated by respondents as effective in promoting repayment discipline. Additionally, Chikodzi (2021) highlighted that digital loan management systems reduce administrative delays and improve transparency, which fosters trust between lenders and borrowers.

Flexible loan structuring is another strategy supported by recent research. According to Dlamini and Moyo (2020), tailoring repayment schedules to match clients' income patterns improves repayment consistency, especially among informal sector workers. Their study in Zimbabwe showed that flexible terms reduced stress and improved borrower satisfaction. Likewise, Abebe and Tadesse (2021) found that grace periods and loan restructuring options helped struggling borrowers recover and resume payments, reducing long-term default risk. These findings reinforce

the importance of designing loan products that reflect the financial realities of diverse borrower groups.

Institutional support and proactive communication also play a vital role. A study by Mwakalobo and Lwesya (2023) emphasized that regular follow-up, personalized support, and responsive customer service significantly enhance repayment outcomes. They argued that when borrowers feel supported and informed, they are more likely to prioritize loan obligations. This supports the current study's observation that improved customer service and timely communication are essential to strengthening repayment behavior. Together, these strategies offer a comprehensive framework for Equity Bank Uganda Limited to reduce defaults and build a more resilient lending system.

#### **5.4. Recommendations**

1. **The study recommends** that Equity Bank Uganda Limited revise its loan structuring policies to offer more flexible repayment schedules that align with borrowers' income patterns. This would reduce repayment pressure and improve consistency, especially among clients in informal or seasonal employment.
2. **The study recommends** enhancing financial literacy programs for borrowers before and during the loan lifecycle. Clear guidance on interest calculations, repayment terms, and loan consequences would empower clients to make informed decisions and reduce misuse of funds.
3. **The study recommends** integrating digital platforms such as mobile apps and SMS reminders to support loan tracking and timely repayments. These tools can improve borrower engagement, increase transparency, and reduce administrative delays.
4. **The study recommends** implementing proactive communication strategies, including timely updates on interest rate changes and personalized follow-up by bank staff. Strengthening client-bank relationships through responsive customer service can foster trust and repayment discipline.
5. **The study recommends** introducing loan restructuring options and grace periods for borrowers facing temporary financial hardship. This would offer relief during economic

shocks and reduce long-term default risk while maintaining client loyalty and financial stability.

### **5.5 Contribution of the study**

The study contributes significantly to the understanding of loan default dynamics within the Ugandan banking sector by offering empirical insights into the institutional, economic, and behavioral factors influencing loan repayment at Equity Bank Uganda Limited. By integrating both quantitative and qualitative data, the research highlights the critical role of loan structuring, borrower education, and communication practices in shaping repayment behavior. This multidimensional approach provides a nuanced perspective that can inform policy reforms, risk management strategies, and client engagement models within commercial banks and microfinance institutions operating in similar socio-economic contexts.

Furthermore, the study adds to the academic literature by validating and contextualizing recent findings from other regions within a Ugandan setting. It offers a practical framework for improving loan performance through flexible repayment schedules, digital tools, and enhanced financial literacy programs. These contributions are particularly relevant for financial institutions seeking to balance profitability with financial inclusion. The study also lays a foundation for future research on borrower behavior, institutional accountability, and the impact of macroeconomic shocks on loan sustainability in developing economies.

### **5.6. Areas of further research**

- 1) The current study has examined the causes of loan default and strategies for improving repayment at Equity Bank Uganda Limited, but future research could explore the long-term impact of flexible loan structuring on borrower retention and financial sustainability. Investigating how adaptive repayment models influence client loyalty, portfolio quality, and institutional profitability would provide deeper insights into the economic implications of loan design reforms. Additionally, further studies could assess the role of borrower segmentation—such as by income level, business type, or geographic location—in tailoring repayment strategies and reducing default risk.

2) While this study focused on institutional and structural factors, future research should examine the psychological and behavioral dimensions of loan repayment. For example, exploring how borrower attitudes, financial stress, and trust in banking institutions affect repayment behavior could enrich the understanding of default dynamics. Comparative studies across different financial institutions, including microfinance and SACCOs, would also help identify sector-specific challenges and best practices. Moreover, given the increasing role of digital platforms, future research should evaluate the effectiveness of fintech solutions—such as mobile apps, AI-driven credit scoring, and automated reminders—in enhancing repayment discipline and financial inclusion.

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**MAKERERE UNIVERSITY**

**Questionnaire for staff of Equity Bank Uganda Limited Staff**

Dear Respondent,

I am ALITUWA JULIAN, a student at Makerere University. I am conducting a study on the “*Assessing Loan Interest Payments in Commercial Banks in Uganda: A Case Of Equity Bank Uganda Limited*” as a partial requirement for the award of the degree of Master in Business Administration. You have been chosen to participate in this study since you are a potential person that we can rely on. You are kindly requested to spare some time and respond to the questions and statements frankly, honestly, and independently. Your responses will be kept anonymous and confidential since this research is solely meant for academic purposes.

Please answer all questions and indicate your responses by ticking (√) in the appropriate box as requested

**Section A-Demographic information**

**A1 what is your Gender?**

Male	
Female	

**A2 What is your Age range?**

18-29	
30-39	
40-49	
50-59	
60 years and above	

**A3 What is your highest level of education**

Diploma	
Bachelor's degree	
Master's degree	
PHD	

**A4 Number of years of banking with Equity Bank**

0 and 5 years	
6 and 10 years	
More than 10 years	

**SECTION B: The causes of high defaults at Equity Bank Uganda Limited**

For each statement in the following section, please indicate the extent to which you agree or Disagree with the following statements on the causes of high defaults at Equity Bank Uganda Limited. Rate your scores on a 5 Likert point scale ranging from; 1-Strongly Disagree (SD), 2-Disagree (D), 3- Not Sure (NS), 4- Agree (A) and 5-Strongly Agree (SA).

	<i>Statements relating to the causes of high defaults at Equity Bank Uganda Limited</i>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
B1	The interest rates charged on loans are too high and make repayment difficult.					
B2	I was not given enough information or guidance about loan repayment terms.					
B3	My income is not stable enough to allow consistent loan repayments.					
B4	The loan repayment period is too short for me to comfortably repay the loan.					
B5	Economic challenges (e.g., inflation, unemployment) have affected my ability to repay the loan.					
B6	I took the loan without fully understanding the consequences of default.					
B7	Poor customer service from bank staff affected how I managed my					

	loan.					
B8	I used the loan for a different purpose than originally planned.					
B9	Lack of follow-up or support from the bank contributed to my difficulty in repaying.					
B10	The bank's loan recovery methods are too harsh and discourage repayment					

### Section C: The loan interest payment challenges at Equity Bank Uganda Limited

For each statement in the following section, please indicate the extent to which you agree or Disagree with the following statements on loan interest payment challenges at Equity Bank Uganda Limited. Rate your scores on a 5 Likert point scale ranging from; 1-Strongly Disagree (SD), 2-Disagree (D), 3- Not Sure (NS), 4- Agree (A) and 5-Strongly Agree (SA).

	<i>Statements relating to loan interest payment challenges at Equity Bank Uganda Limited</i>	1	2	3	4	5
C1	The interest rates on my loan are too high for me to afford regular payments.					
C2	I was not clearly informed about how interest on my loan would be calculated.					
C3	Interest payments increase my financial burden and make it difficult to meet other obligations.					
C4	I did not fully understand the difference between fixed and variable interest rates.					
C5	The bank changes interest rates without giving me timely notice.					
C6	Interest charges continue to accumulate even when I face temporary financial difficulties.					
C7	I find it hard to calculate how much of my monthly payment goes toward interest versus the principal.					
C8	I would repay my loan faster if the interest rates were lower or more flexible.					

## Section D: The various ways of improving loan repayment at Equity Bank Uganda Limited

For each statement in the following section, please indicate the extent to which you agree or Disagree with the following statements on various ways of improving loan repayment at Equity Bank Uganda Limited. Rate your scores on a 5 Likert point scale ranging from; 1-Strongly Disagree (SD), 2-Disagree (D), 3- Not Sure (NS), 4- Agree (A) and 5-Strongly Agree (SA).

	<i>Statements relating to the various ways of improving loan repayment at Equity Bank Uganda Limited</i>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
D1	Lowering interest rates would make it easier for customers to repay loans on time.					
D2	Providing financial literacy training to customers would improve loan repayment behavior.					
D3	Giving flexible repayment schedules based on customers' income patterns would improve repayment.					
D4	Offering grace periods during financial hardship would help reduce loan defaults.					
D5	Regular communication and follow-up by bank staff would encourage timely repayments.					
D6	Reviewing customers' financial status before disbursing loans would reduce the risk of default.					
D7	Incentivizing timely repayments with rewards or benefits would motivate customers.					
D8	Digital platforms (e.g., mobile apps) for loan tracking and reminders would support better repayment habits.					
D9	Loan restructuring options for struggling borrowers would reduce the default rate.					
D10	Improved customer service would strengthen trust and encourage better loan repayment discipline.					

**Interview Guide to Heads of Credit department at Equity**

**i) Self-Introductions:** Researcher and Respondent

The purpose of the interview is to gather views on “*Assessing Loan Interest Payments in Commercial Banks in Uganda: A Case Of Equity Bank Uganda Limited*”.

**(ii) Demographic characteristics**

Designation of interviewee

.....

Place of Interview..... Time.....

Can you tell me briefly about yourself.....(Probes for age, education, duration of service of the interviewee etc)

**Guiding Questions**

- i). What do you consider to be the main reasons why some loans issued by Equity Bank Uganda become non-performing?
- ii). In your experience, what are the key factors that lead to loans being written off as bad debts at Equity Bank Uganda?
- iii). How effective do you think Equity Bank’s current credit risk management practices are in preventing or minimizing non-performing loans?
- iv). What strategies do you believe could be adopted to improve the quality of the loan portfolio and reduce credit risk at Equity Bank Uganda?
- v). How can Equity Bank better assess borrowers at the loan application stage to avoid future credit losses?

# MAKERERE

Plot 51, Pool Road  
P.O. Box 7062  
Kampala, UGANDA  
Website: [www.bams.mak.ac.ug](http://www.bams.mak.ac.ug)



# UNIVERSITY

Phone: +256 414 530 945  
E-mail: [deanbiz.bams@mak.ac.ug](mailto:deanbiz.bams@mak.ac.ug)

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**COLLEGE OF BUSINESS AND MANAGEMENT SCIENCES**  
**School of Business**  
**Office of the Dean**

05/08/2025

**TO WHOM IT MAY CONCERN**

Dear Sir/Madam

**INTRODUCING MS. JULIAN ALITUWA TO YOUR ORGANISATION FOR RESEARCH SUPPORT.**

This is to introduce to you Ms. Julian Alituwa, a Master of Business Administration student, registration number - 2023/HD06/23094U, who is currently conducting a **Plan B** research study on "Assessing Loan Interest payment in Commercial Banks in Uganda: A case study of Equity Bank Uganda Limited." for research support. Your support towards Julian will enable her to fulfil a key requirement for the award of the Degree of Master of Business Administration at Makerere University.

While the research being pursued is mainly for academic purposes, upon its completion is expected to inform policy and contribute to the overall operations of organisations. Therefore, Julian is reaching out to your organisation for assistance in the realisation of the aforementioned endeavours.

Any research assistance extended to her will be our pleasure, and we look forward to your continued support.

Yours sincerely,

Dr. Diana L.K Ssekiboobo,  
Assistant Co-ordinator, Graduate Programmes and Research.  
Telephone: 0782757734/0704904492  
Email: [dianalouiseks@gmail.com/diana.ssekiboobo@mak.ac.ug](mailto:dianalouiseks@gmail.com/diana.ssekiboobo@mak.ac.ug)



*Leveraging 100 years of Excellence in Building a Transformed Society*