RELATIONSHIP BETWEEN LOAN RECOVERY PRACTICES AND LOAN PORTFOLIO PERFORMANCE OF COMMERCIAL BANKS IN UGANDA.

A Case of Centenary Bank -Entebbe Road Branch

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DECEMBER, 2014

KYAMBOGO UNIVERSITY

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SUPERVISOR'S APPROVAL

We, being University supervisors, have supervised the dissertation titled "relationship between Loan Recovery Practices and Loan Portfolio Performance of Commercial Banks in Uganda: A case of Centenary Bank Entebbe Road branch" submitted to Kyambogo University Graduate School by Kyobe Godfrey for Master in Business Administration (MBA)

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Date...30/12/2014..

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Signature..

Date.................................30-12-2014..

DEDICATION

To my parents Mrs. Nalunga Rose Night and Mr. LumuYolanimu

ACKNOWLEDGMENT

I thank the almighty God who has brought me this far and has enabled me to complete my research dissertation and studies.

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(ALLL)	ALLOWANCE FOR LOAN AND LEASE LOSSES
BOU	BANK OF UGANDA
CBN	CENTRAL BANK OF NIGERIA
CRB	CREDIT REFERENCE BUREAU
FY	FINANCIAL YEAR
GDP	GROWTH DOMESTIC PRODUCTS
IVR	INTERACTIVE VOICE RESPONSE
INC	INCORPORATION
NPAs	NON-PERFORMING ASSETS
PAR	PORTFOLIO AT RISK
PNB	PUNJAB NATIONAL BANK
(SBI)	STATE BANK OF INDIA
STD	STANDARD DEVIATION
SMS	SHORT MESSAGE SERVICE
USA	UNITED STATES OF AMERICA

ABSTRACT

The general objective of the study was to examine the relationship between loan recovery practices and loan portfolio performance of commercial banks in Uganda. Specifically it focused on centenary bank Entebbe road branch as a case study. Specific objectives of the study was; to examine the relationship between reminder strategies and loan portfolio performance of Centenary Bank, to assess relationship between legal and procedural enforcement and loan portfolio performance of Centenary Bank, to evaluate relationship between loan monitoring and loan portfolio performance of Centenary Bank. In methodology, the researcher used a case study and correlation survey. The target populating was centenary bank Entebbe road branch staff and customers. Among the staff included; loan officers, banking officers, managers, credit Administrators, customer service consultants and management trainees in total this population was 114 and the researcher sampled 107 basing on Krejcie & Morgan (1970) table. Unfortunately those who returned the questionnaires were 84. Therefore, the researcher used a sample of 84 respondents. The study findings indicated that reminder strategies had significant relationship on loan portfolio performance with higher overall mean of 3.906725 and correlation coefficient of (r=0.798 with a significant relationship of 0.000<0.01) and the equation of Loan portfolio performance was = 0.798 Reminder strategies + Constant. On the side of Legal and procedural enforcement the overall mean was 3.7821 with a very strong positive but significant associative relationship and coefficient of (r=0.986; significant relationship of 0.000<0.01) and the equation of Loan portfolio performance was = 0.986 Legal and procedural enforcement + Constant. Finally Loan Monitoring its overall mean was 3.7673636 with a very strong positive but significant associative relationship and correlation coefficient of (r=0.984; significant relationship of 0.000<0.01) and the equation of Loan portfolio performance was found = 0.984 Loan Monitoring + Constant. The researcher recommended that bank should closely watch the reminder strategies, educate and sensitize customers and other users of the financial, recruiting recovery officers, adopting group recovery policy, facilitating the recovery process and the enforcement, create a department for follow up action and carrying out standard loan appraisal, formulate a separate legal department and recovery department at each branch, involve LCs chair persons, use guarantors all these will help increase Loan Portfolio Performance.

CHAPTER ONE

1.0 Background to the Study

This study is about loan recovery practices and loan portfolio performance in commercial banks in Uganda. It focused on Centenary Bank Entebbe Road branch. Centenary Bank is a commercial bank that provides deposit, credit and money transfer services. Established by the Catholic Church of Uganda as a trust fund in 1983, it developed strength in savings mobilization and as a result Centenary Rural Development Trust was transformed into a commercial bank in 1993 with a mission of providing appropriate financial services to all Ugandans in a sustainable manner. In relation to loan recovery practices, Garry Kennedy et al, (2014) noted that it is important to contact the customer with a friendly payment reminder whereby once the payment is overdue. The customer may have forgotten, paid into the wrong bank account or other minor issue and bank contact will be enough to get the invoice paid. Sharon D'Souza, (2011) argues that banks may use reminder strategies in form of non-intrusive channels such as SMS, e-mails, dunning letters and IVR.

Yogesh Sapkale (2013) articulated that, while the net non-performing assets (NPAs), or bad loans, of banks are on the rise, bankers are facing several issues including legal and procedural hurdles while recovering their dues. Ciele Edwards (2014) and Mandar (2010) emphasizes that a bank can appeal to the legal system, which can then force client to pay. The legal methods a bank can use to recover a debt from client may include foreclosure, repossession and wage garnishment. However repossession of security is aimed at recovery of dues and not to deprive the borrower of the property to enhance loan portfolio performance of the bank.

According to CA Case Ware IDEA Inc, (2009) the primary business activity of commercial banks is lending and therefore the loan portfolio represents one of the largest assets and a predominant source of revenue. It is also a great source of risk to a bank's soundness. Whether due to lax credit standards, poor portfolio risk management, or weaknesses in the economy, loan portfolio problems have historically been the major cause of bank losses and failures. Therefore while annual audits of loan portfolios may address these risks, experience has revealed that continuous monitoring of the portfolio is the preferred approach. Identifying control breaches, anomalies and high risk activities early and employing a firm remediation strategy often prevents and certainly minimizes the impact of any potential impairment of the portfolio.

Kaggwa. N.S (2013), contends that loan portfolio performance is the rate of profitability or rate or return of an investment in various loan products thus broadly, it looks at the number of clients applying for loans, how much they are borrowing, timely payment of installments, security pledged against the borrowed funds, rate of arrears recovery, write-off and the number of loan products on the chain. The loan products may comprise of; Salary loans, Group guaranteed loans, Individual loans and corporate loan. She continued that loan portfolio performance is loans that have been made or bought ad are held for repayment. Loan portfolios are the major asset of banks, thrifts, and other lending institutions. The value of a loan portfolio depends not only on the interest rates earned on the loan

In Germany, Elsas et al. (1998) questioned the rationale for commercial banks to arrive at credit decision. Their study emphasized the need to look at the following aspects of lending as they all influence the ability of a loan to go on default hence warrant recovery measures. These are; credit risk measurements, credit rating evaluation, relationship-lending, determinant of bank loan portfolio performance, bank behavior based on internal credit ratings and credit securitization and credit derivatives.

In the United States of America (USA), Altman et al. (2004) noted that as the default rate increase so does the loan recovery rate increase. It therefore calls for measures to be put in place to ensure that credit risk is quickly reviewed to reduce or lower default rate to ensure loan portfolio performance.

In India, Visaria (2009) confirms that judicial arbitration is supportive in loan recovery practices. He acknowledged that legal (judicial) enforcement is slow in loan recovery. He presupposes that difference in judicial quality in India affects the loan recovery practices through the legal means due to unobservable country specific factors that affect bank's loan portfolio performance, growth prospects and financial decisions. The introduction of judicial arbitration assisted in loan recovery in Indian banks.

In Africa, many banks have suffered financial distress and failure due to non performing loans. In Kenya for instance many of these banks have been closed due to regulatory authorities while some of them were restructured. In Kenya two (2) local banks were closed between 1984 and

1989 as well as ten (10) non-bank financial institutions. Still in Kenya, an additional ten (10) non bank financial institution and a further seven (7) local banks were shut between 1993/94 (Brownbridge, 1998).

Kaggwa .S.N (2013), further acknowledges that Uganda's financial system is composed of formal, semiformal and informal institutions (Uganda Financial Institutions Act 2004). The formal institutions include banks, Microfinance Deposit-taking institutions, Credit Institutions, Insurance companies, Development Banks, Pension Funds and Capital Markets. The semi informal institutions include Savings and Credit Cooperatives (SACCOs) and other Microfinance institutions, whereas the informal ones are mostly village savings and loans associations. Formal institutions are less prominent in rural areas than urban areas and they only serve 14% of the rural population. Informal institutions play an important role in the rural service provisions and serve approximately 12% of the rural population. These numbers indicate that Uganda's financial system is still quite shallow. With regard to access to finance, 62% of Uganda's population has no access whatsoever to financial services. The number of the population holding accounts in banks is 4 million or 33% of the 12 million who are bankable. The savings to GDP ratio is still low at 16%. In addition, financial intermediation is poor as indicated by the stock of private sector credit of 11.8% of GDP hence at the end affect loan portfolio performance of banks.

In centenary bank, according to the tables bellow nonperforming portfolio has been fluctuating, for example in June 2013 it was 3.25% as compared to the budget of 2.2%, May 2014 it was 3.5%, June 2014 it was 4.3% and July 2014 it increased up to 4.4% though they had budgeted for 2.2%. The statistics show that, the bank failed to reach its target of reducing the non performing loans to 2.2% as it was budgeted for. If you compare this statistics with that of October 2013 and 2012, the table illustrates that, in 2012 non portfolio performance was 3.26%, 3.2% in September 2013, and 3.18% in October 2013 here the bank had budgeted for the non portfolio performance decrease up to 2.5%, this means that the bank's non portfolio performance does not satisfy the expected performance and in 2014 it is worse therefore a gap that needs to be addressed by examine whether if the bank puts in place loan recovery practices will it be in position to reach its non-portfolio performance target.

October 2013 Performance Highlight

Key Performance Indicator	Actual YTD Oct 2012	Actual YTD Sept 2013	Actual YTD Oct 2013	Budget- Oct 2013
Loan Deposit Ratio	73.1%	68.2%	69.0%	71.3%
Cost Income Ratio	68.9%	72.6%	73.2%	70.0%
Non Performing Portfolio	3.26%	3.2%	3.18%	2.50%
Total Operating Income (Billions)	172.1	176.4	198.1	192.0
Profit after tax (Billions)	48.1	45.2	48.3	51.4
Total Deposits (Billions)	735.9	926.5	938.2	856.1
Total Net (Billions)	537.7	632.3	666.4	626.6

SOURCE: Branch Operations Report to Bank Management 2012-2013

Key Performance Indicates	Actual June 2013	Actual May 2014	Actual June 2014	Actual July 2014	Budget/target June 2014
Loan Deposit Ratio	64.7%	69%	67.1%		71.2%
Cost Income Ratio	72.8%	72.0%	74.4%		74.4%
Non performing portfolio	3.28%	3.5%	4.3%	4.4%	2.2%
Total operating income (Billions)	113.7	110.5	133.8		125.5
Profit after tax (Billions)	30.0	28.4	31.0		29.7
Total Deposits (Billions)	900.8	1.0458	1.0749		1.044
Total loans net (Billions)	579.5	721.8	721.6		715.3

Source: Branch Operations Report to Bank Management 2013-2014

1.2 Motivation in this Study

Studies show that commercial banks more especially Centenary Bank still struggles with loan collection leading to the loans going into default. This has given rise to consolidated bank, which is attributed to failure of a number of local Ugandan banks as they were placed under consolidation to take them through the recovery path. In Uganda, studies have been undertaken regarding none performing loan(NPL) which shows clearly that loan recovery is still a challenge.(Kaggwa, 2013). Therefore these studies ignore the element of loan recovery practice and their effects on loan portfolio performance.

1.3.0 Problem Statement

Commercial Banks in Uganda are experiencing difficulties with loan recovery. Although centenary bank has loan recovery practices such as reminder strategies, legal and procedural enforcement and loan monitoring, the bank is still facing challenges with defaulters. Despite the loan recovery practices put in place by centenary bank, non-portfolio performance of Entebbe road branch has been increasing for instance in June 2013 it was 3.25% as compared to the budget decline of 2.2% by the bank, May 2014 it increased to 3.5%, June 2014 it increased to 4.3% and July 2014 it increased up to 4.4% though the bank had budgeted for a decline target of 2.2% in 2013 and 2014(Branch Operations Report to Bank Management 2013 and 2014).The operational and administrative costs have increased, arrears rate is growing with the rate of write-off as well as portfolio at risk and timely payment of installments and as a result, the Bank at present experiences considerable difficulties in recovering loans and enforcement of accumulated interest rates charged on them. Therefore, that is why the research was interested to examine whether loan recovery practices can affect loan portfolio performance of centenary bank Entebbe road branch as the main area of interest.

1.4 General objective of the Study

The general objective of the study was to examine the relationship between Loan Recovery Practices and Loan Portfolio Performance of Commercial Banks in Uganda focusing on Centenary Bank.

1.4.1 Objectives of the Study

i. To examine the relationship between reminder strategies and loan portfolio performance of Centenary Bank.
ii. To assess the relationship between legal and procedural enforcement and loan portfolio performance of Centenary Bank.
iii. To evaluate the relationship between loan monitoring and loan portfolio performance of Centenary Bank.

1.5 Research Questions

i. What is the relationship between reminder strategies and loan portfolio performance of Commercial Banks?

ii. Is there a relationship between legal and procedural enforcement and loan portfolio performance of Centenary Bank?

iii. What is the relationship between loan monitoring and loan portfolio performance of Centenary Bank?

1.6 Scope of the study

The study Scope was addressed based on three domains, that is, content scope, geographical scope and time scope.

1.6.1 Content scope

The study concentrated on Loan Recovery Practices as independent variable and Loan Portfolio Performance as dependent variable of Commercial Banks in Uganda focusing on Centenary Bank Entebbe road branch. The independent variable addressed reminder strategies, legal and procedural enforcement and loan monitoring as the major variable of concern for the study while the dependent variable addressed issues of loan portfolio performance in terms of timely payment of installments, Rate of arrears recovery, portfolio at risk and write –off as the key variables to for the study.

1.6.2 Geographical Scope

The study was carried out at centenary bank Entebbe road branch. The area was enough for a researcher to generate relevant information in relation to Loan Recovery Practices and Loan Portfolio Performance of Commercial Banks in Uganda. Another reason for choosing this branch is that the Non portfolio performance of centenary bank Entebbe Road branch has been increasing as compared to the target of 2.2% to 4.4% as expressed in monthly branch report to Management 2013/2014 in the background to the study.

1.6.3 Time scope

The study considered a period between 2011 and 2014 so as to be able to analyze critically issues of loan recovery practices and loan portfolio performance of centenary banks because this period according to the statistics expressed in the background to the study, Non portfolio performance of Centenary Bank Entebbe Road branch has been increasing as compared to the target of 2.2% decrease, instead it gradually increased to 4.4%.

1.7 Significance of the Study

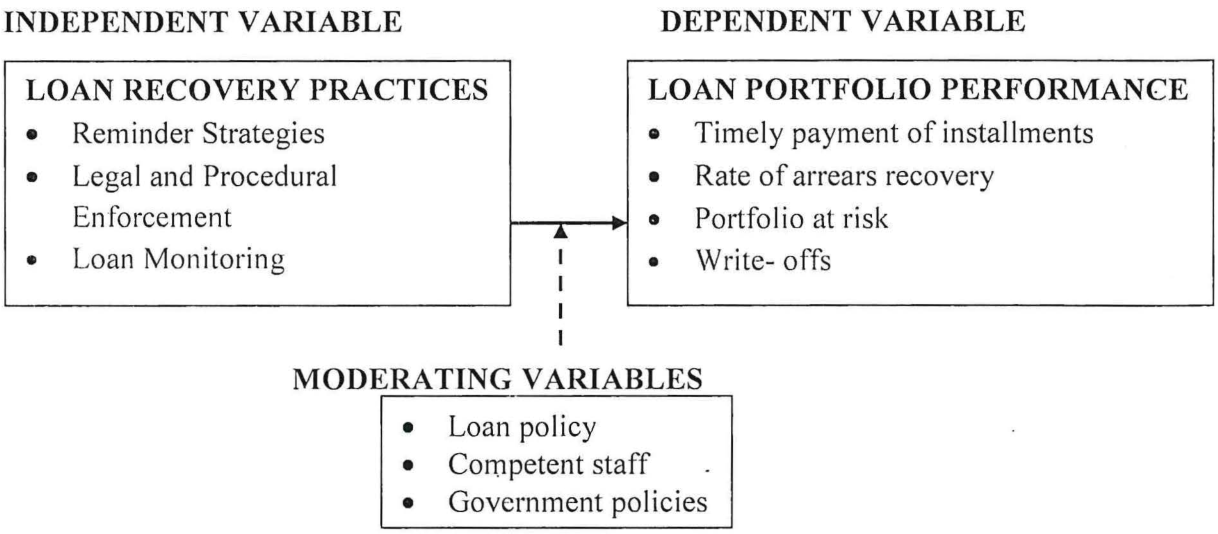
The importance of financial sector in any economy can be easily understood by imagining it as blood stream flowing in human body. Just as a healthy blood stream ensures the sound health of human body, a healthy financial system ensures the stability of the economy. A healthy economy easily attracts foreign investment which further boosts up the development processes in the country.

- The study findings may add to the already existing literature on Loan Recovery Practices and Loan Portfolio Performance of Commercial Banks in Uganda.
- The study findings are expected to enable commercial banks identify loan recovery practices that are critical in the lending business.
- The financial institution used as a case study in the research may be able to improve its loan recovery practices policy formulation.
- The study is expected to provide guidance to the Central Bank and other regulators in loan recovery management policy formulation.
- The study is expected to stimulate further research into the area of loan recovery practices and loan portfolio performance.

1.8 Conceptual Framework

The model shows the relationship between loan recovery practices and loan portfolio Performance. The independent variable was loan recovery practices and loan portfolio performance dependent variable. From the model Loan Recovery practices was measured according to reminders, legal and procedural enforcement and loan monitoring whereas Loan Portfolio Performance was measured according to timely payment of installments, rate of arrears recovery, portfolio at risk and write-off.

Figure 1. 1:Conceptual Framework



Source: Adapted from Kaggwa. S. Nakayiza 2013 and Owen E. Richason IV, Demand Media (2014)

From the conceptual framework in figure 1.1, it is emphasized that loan recovery reminder strategies can mitigate loan portfolio performance problems. If the bank invests in legal and procedural enforcement in case if the borrowers fails to respond to reminders. This works very well if the bank carries out loan monitoring this can influence loan portfolio performance by inducing timely payment of installments, rate of arrears recovery and write- offs. However the recovery process may also depend on whether the quality of staff is good in relation to favorable loan recovery policies and in line with favorable government policy also.

CHAPTER TWO

LITERATURE REVIEW

This chapter discusses literatures from different scholars on loan recovery practices from around the globe. The survey covers the effect of reminder strategies on loan portfolio performance of centenary bank, the effect legal and procedural enforcement effect loan portfolio performance of centenary bank and the effect of loan monitoring and loan portfolio performance of centenary bank.

2.0 Banking Industry in Uganda

Kaggwa. S. Nakayiza, (2013) noted that Uganda's financial system is composed of formal institutions that include banks, microfinance Deposit-taking institutions, Credit institutions, Insurance companies, Development Banks, Pension Funds and Capital Markets; the semi informal institutions that include savings and Credit Cooperative Association (SACCOs) and the other Microfinance institutions, whereas the informal ones are mostly village savings and loans associations. Formal institutions are less prominent in rural areas than urban areas, only serving 14% of the rural population. Informal institutions play an important role in the rural service provisions being that they serve approximately 12% of the rural population (ABC Capital Bank, 2012). She further continued that Uganda's financial system is still quite shallow. With regard to access to finance, approximately 62% of Uganda's population has no access to financial services. The number of the population holding accounts in banks is 4 million which is 33% of the 12 million who are bankable thereby leaving the savings to GDP ratio low at 16%. In addition, the financial intermediation as indicated by the stock of private sector credit is so poor at about 11.8% of GDP (ABC Capital Bank, 2012).

She also stated that Bank of Uganda (BOU) was opened on the 15th of August 1966 which is 100% owned by the government of Uganda though, however, it is not a government Department. Bank of Uganda works and conducts all its activities in close association with the ministry of Finance, Planning and Economic Development. The primary purpose of the Bank is to foster price stability and a sound financial system. Together with other institutions, the bank also plays a pivotal role as a centre of excellence in upholding macroeconomic stability within the country (Bank of Uganda, 2013).

She further contends that the banking sector in Uganda underwent significant restructuring in the early 2000s, several indigenous commercial banks were then declared insolvent, taken over by the central bank and eventually either sold or liquidated. Therefore in the passage of the banking bill of 2004 in parliament new banking institution classification guidelines were established. The moratorium on new banks was lifted in July 2007 and during the eighteen months of lifting the moratorium new commercial banks were licensed. During 2008 and 2009, several existing banks went on an accelerated branch expansion either through mergers and acquisition or through new branch openings and this were recorded to be the highest growth in the years. As far as October 2012, there were 24 licensed commercial banks in Uganda, with nearly 500 bank branches and a total of almost 600 automated teller machines (Bank of Uganda, 2013).

2.1 Loan Recovery Practices

Loan recovery practices can be considered as practices to the loan that has been taken by a person from a bank then he has to repay it according to the EMI fixed by the bank but if the person has failed to pay the EMI regularly for a fixed period then the account is named as NPA (Non-Performing Assets) and after that bank start recovery procedure means to take back his loan amount from the mortgaged property of the person according to the procedure of Securitization Act.Al Reis (2014) recognize that the financial urgency that delinquent commercial accounts can create and the impact of outstanding receivables on the bank. He provides comprehensive collection representation, legal representation, bankruptcy and collateral recovery and real estate default services to commercial banking creditors nationwide. He focuses on debt and asset recovery by providing complete set of collection and legal services for efficient recovery management. He continued to say that, loan recovery practice contains issues related to:

i. Claim Presentment,
ii. Non-dischargeable Litigation,
iii. Work Outs,
iv. Commercial Loan Workouts,
v. Demand Letter Programs,
vi. Contingent Commercial Recovery Programs,
vii. Skip Tracing,
viii. Pre-Suit Collection Efforts,
ix. Forbearance Agreements,
x. Collection Litigation,

xi. Post-Judgment Recovery including Bank Attachments/Creditors Bills/Liens,
xii. Jury Litigation,
xiii. Federal Court Representation,
xiv. Arbitration and Mediation,
xv. Enforcement of Foreign Arbitration Awards,
xvi. Creditor Defense,
xvii. Insurance Subrogation,
xviii. Trade Finance Issues,
xix. Contract Review,
xx. Commercial & Consumer,
xxi. Foreclosure and Eviction Services
xxii. Receiver Activities.

Therefore, all of these recovery practices embedded in reminder strategies, legal and procedural enforcement and loan monitoring as a research intend to do.

2.1.1 Reminder Strategies

Montana, (2012) predisposes that bank loan recovery is assuming an alarming trend as its growth is looking almost unstoppable. This growth can mostly be attributed to a poor economy which affects both consumers and markets around the world. Banks are individually devising new techniques and practices to improve their loan recovery. In this study, reminder strategies were categoried into three that is to say, telephonic reminders, and written communication and follow up practices.

In relation to African economic outlook, (2005), the following can be used to reduce loan recovery problems in African banks; use of reminders has proved to be a good measure to encourage debtors to pay up their debts. It emphasizes that, some customers are genuinely not able to remember when their debts are due. Therefore, reminders such as short text (SMS), email or a simple telephone call does the magic and enable the client remember their obligation to the bank thereby making them be in a position to repay their debts. The advent of Credit Reference Bureau (CRB) has brought a lot of relief to the banking sector. Serial defaulters have been denied a chance to default across banks as banks now have a chance to report defaults and therefore lock out these defaulters from approaching other banks and taking loans from them therefore continuing with the loan default culture across banks.

Many banks in their credit policy now check with CRB before issuing loans to borrowers Kagwa, (2013).There exist multiple means of keeping in touch with borrowers. Banks have continued to employ products such as direct debits, mobile banking loan repayment platforms, MTN Mobile money, Mpesa, Airtel money and agent banking among other methods to add onto the traditional loan repayment techniques such as direct deposits, standing orders, checking system as well as salary check off system by employers. These channels have made it easy for borrowers to access the bank and therefore make good of their repayments.

UCO Bank, 2013 and Allahabad Bank 2013, in their articles both agree that, while written communications telephonic reminders or visits by the bank's representatives to the borrowers place or residence will be used as loan follow up measures, the bank will not initiate any legal or other recovery measures including repossession of the security without giving due notice in writing. The service of demand notice will be made by delivering or transmitting to the borrower of his agent, by Registered Post with acknowledgement due, or by Speed Post or by Courier or by any other means of transmission of documents like fax message or Electronic Mail service. Bank follows all such procedures as required under law for recovery/repossession of security. The borrower is given due notice as required under the prevailing laws which includes Notice of 60 days from the dispatch of notice under the provisions of Sec. 13(2) to pay the debt failing which the bank will proceed to take possession of the asset.

Friendly Payment Reminder

Garry Kennedy et al, (2014) in their study of debt recovery noted that it is important to contact the customer with a friendly payment reminder whereby once the payment is overdue, phone, email or mail the customer with a courtesy reminder. The customer may have forgotten, paid into the wrong bank account or other minor issue and bank contact will be enough to get the invoice paid. Include payment options, banking details and contact information to make it easier for customer to pay the loan quickly. Their study emphasized the need to look at the overdue payment reminder, if the payment remains outstanding and the customer has missed the next agreed payment date, or there has been no contact, phone the customer or send another email or letter reminder of the money owing and request payment.

They emphasize to contact customer with a final notice, when the customer has not paid as per the terms of payment, and has missed any extended payment dates gain call or email them to discuss the outstanding invoice and request payment. Their study also tries to emphasize direct contact with customer, if there is still no payment or response consider visiting the customer in person (or phoning them if previous contact has been via email) to ask for payment. This helps create a personal relationship with the customer that could be useful for future payments. They also capitalize on sending a formal letter of demand, in the event that all attempts to contact them have failed, consider sending a letter of demand. This should be only done as a last resort, as it can damage relationship with the customer. Finally they argue that if the banks still haven't been paid, then may consider using a loan collecting agency to collect the outstanding money from the customer. It is useful to check a list of fair loan collection practices, developed by Consumer Affairs.

Owen E. Richason IV, Demand Media (2014) state that, it is very useful to mail a reminder letter to the borrower first. After the loan goes past due 15 to 30 days, send the borrower a professional reminder on the bank letterhead. Politely state that according to the records the bank, loan payment has not been received. Include a reminder that paying promptly avoids a late fee and further collection attempts. *Owen et al* (2014) further state that the bank should Place a phone call directly to the borrower, rather than to an accounting or accounts payable department. The bank must speak directly with the borrower. Under the Fair Debt Collection Practices Act 1996, it is not allowed to discuss the loan with anyone other than the borrower. In their analysis, they also emphasizes on send a letter of demand if the borrower does not follow through with promises to pay it serves as a final warning to repay the debt before it is turned over to a collection agency or commencing legal action, says Larry Haye of National Westminster Bank USA. Although a telephone call is not as effective as a personal visit, it is a direct and fast method of debt collection. It is superior to letter writing or reminders because you are making personal contact and creating an opportunity to develop a relationship. Sending letters and reminders of overdue debts is the most common form of debt collection and the 'easy option'. But because it is relatively impersonal, it's also the least effective. The tactic works with customers who intend to pay you anyway (they just need a prod to dust off the chequebook), but is relatively ineffective with habitual late payers. These analyses could be related to that one of Garry Kennedy et al, (2014) in their study of debt recovery. One of the most pertinent aspects that ICICI Bank had to pay attention to was debt recovery. Although the primary function of recovery agents is to ensure debt collection, the bank wanted to carry out the process delicately without losing its customers. Thus, the bank introduced customer-friendly practices, which, in addition to ensuring collection, were aimed at improving customer relationship and its own brand value.

Sharon D'Souza, (2011) in her article of improved debt collection with BI: An ICICI Bank story she reported that, ICICI Bank's defaulter bucket comprised serious delinquencies (high risk) and early delinquencies (low risk). In the due course, the bank adopted a 'centralized debtors' allocation model' to allocate the right set of delinquent cases to the most appropriate collection channel. The bank used multiple channels for loan recovery. This includes non-intrusive channels such as SMS, e-mails, dunning letters and IVR. Those non-intrusive channels can be seen as bellow;

Riivari, J. (2005). In the Journal of Financial Services Marketing said that, European financial organizations are using mobile banking and SMS to improve their customer service and relationships, to reinforce their brand by literally placing it in their customer's pocket and to reduce their costs.

Dillman, D. A., Phelps, G., Tortora, R., Swift, K., Kohrell, J., Berck, J., & Messer, B. L. (2009). They said that, IVR (*interactive voice response)*, a telephony technology in which someone uses a touch-tone telephone to interact with a database to acquire information from or enter data into the database. Dillman et al (2009) further expresses that IVR technology does not require human interaction over the telephone as the user's interaction with the database is predetermined by what the IVR system will allow the user access to. For example, banks and credit card companies use IVR systems so that their customers can receive up-to-date account information instantly and easily without having to speak directly to a person. IVR technology is also used to gather information, as in the case of telephone surveys in which the user is prompted to answer questions by pushing the numbers on a touch-tone telephone.

ICICI Bank also uses Dunning letters, but according to Zhang, P., Shao, G., Zhao, G., Le Master, D. C., Parker, G. R., Dunning, J. B., & Li, Q. (2000). They say that, a *dunning letter* is a notification sent to a customer, stating that the customer is overdue in paying an account receivable to the sender. Zhao et al (2000), the continued to express that dunning letters typically follow a progression from polite reminders to more strident demands for payment, if the customer continues to be non-responsive in paying. The first few letters that are sent to a customer should be polite, on the theory that the customer has simply overlooked payment, and the company wants to retain its goodwill for future business.

According to them, as more time passes; the company begins to change its assumption of doing further business with the customer, and so tends to downplay the amount of customer goodwill that it wants to retain in favor of being paid now. Zhao et al (2000), Irrespective of the tone of the letter, it always states the amount due, the date of the unpaid invoice, the number of the invoice, and any late payment fines or interest penalties. At some point following the normal payment date, the effectiveness of issuing dunning letters will decline, so that a company discontinues their use and relies upon personal contacts, attorneys, and collection agencies instead.

Dunning Letter

Zhao et al (2000), they said that, a dunning letter can take a variety of physical forms. It was originally a letter that might be sent by regular mail, registered mail, or overnight delivery in order to convey the increasing urgency of the request, as well as to create a record of receipt (in the case of registered mail or overnight delivery). However, a dunning letter can also be sent as a fax, e-mail, or even a text message. They also emphasized that these electronic delivery methods can go astray (especially a fax), and may not be as effective as the more traditional paper-based method. Dunning letters are frequently generated by a computer, with no human input at all. The system is configured to use a particular text if payment has not been made within a certain number of days, and to then use a different text for letters generated after a longer time period has passed without payment. It can be more efficient to farm out the task of creating and issuing dunning letters to a third party. ICICI Bank also use reminder calls through the call centers, which are used to handle early delinquencies. The serious delinquents require a personal visit or may even need initiation of legal action.

Reminder Strategies Fall Short of Specificity

Therefore, despite the fact that the literature reviewed on this chapter is too rich in establishing different reminder strategies, most of it falls short of specificity. It does not show the link between loan reminder strategies and how it can affect loan portfolio performance of banks. Also most of these studies were conducted in other parts of the world and they seem to ignore the local centenary bank perspectives. Therefore, this study was conducted essentially to fill this gap.

2.1.2 Legal Procedural Enforcement

In line with legal and procedural enforcement on loan portfolio performance of banks, this dimension capitalized on repossession, giving demand notice to borrowers and legal huddles as different indicators. Their literature will be reviewed as under.

Legal Hurdles in Loan Recovery and Loan Portfolio Performance

Yogesh Sapkale (2013) in the article Banks facing legal hurdles while recovering bad loans articulated that, While the net non-performing assets (NPAs), or bad loans, of banks are on the rise, bankers are facing several issues including legal and procedural hurdles while recovering their dues. Several bankers present at BANCON 2013 in Mumbai, however, assured that banks are paying a lot of attention for loan recovery from big and small defaulters of which this has affected their portfolio performance.

Also the article states that, "There are many challenges (in recovering dues) including legal ones. Even after using the Securitization and Reconstruction of Financial Assets & Enforcement of Security Interest Act, 2002 (SARFAESI Act), defaulters are found obtaining stays from any court, including labour courts. The bank then has to rush to that court and get the stay vacated. This is making recovery (of dues) difficult," said Arundhati Bhattacharya, chairperson and managing director of State Bank of India (SBI) as a result affecting loan portfolio of the bank. Also in the speech of finance minister P Chidambaram also asked bankers to deal firmly with wilful defaulters, but handhold those victims of circumstances who are reeling under the impact of the economic slowdown.

According to Yogesh (2013) it was reviled that, NPAs of forty (40) listed banks, including State Bank of India (SBI), Bank of Baroda (BoB), Punjab National Bank (PNB), Central Bank of India, IDBI Bank and Union Bank of India jumped 38% or by around Rs35,424 crore during the first half of FY2014 due to high provisioning. Net NPAs of these lenders jumped to Rs1.3 lakh crore from Rs93,109 crore as on March 2013 which affected the loan portfolio performance, says a study conducted by NPASource.com.

In the same article, SS Mundra, chairman and managing director of Bank of Baroda said, banks use two options in case of bad debt, recover and restructure. "Recovery option is used when there is other choice left (for repayment of loan by the borrower) and there are several procedure involved in this process. Restructuring of loans is mostly used whenever possible," he said.

According to a research paper by McKinsey & Company, capital allocation by Indian banks is questionable. "In India, around 73% of total banking credit goes to non-retail customer segment and about 40% of this is channeled into sectors such as infrastructure, metals and mining, auto, textiles, durable and paper products that are currently not creating value," it said.
"On an incremental basis, 44% of corporate credit was channeled into these sectors. The level of credit allocation, especially for infrastructure, from the banking sector is significantly lower for other Asian economies such as Thailand, Indonesia and Singapore. While a lot of the asset quality problems in the (Indian) banking industry today are a reflection of the macroeconomic situation, too much emphasis on just big ticket lending to build balance sheets will lead to concentration of lending to fewer companies and continued exclusion of small business, specialized and mass lending opportunities," McKinsey & Company added.

NPAsource.com said, Out of the total 40 listed banks, 14 banks have reported more than 50% jump in net NPAs during the first six months of FY14. According to analysis done by NPAsource.com, the share of the top ten banks in net NPAs has come down to 67.8% in September from 70% in March 2013. The analysis also shows that net NPA of seven banks was higher than 3.5% as on September 2013 as against none as of March 2013.

Repossession in Loan Recovery and Loan Portfolio Performance

Ciele Edwards (2014) in her article, Use of Force by Banks for Recovery of Loans said that no creditor/bank in the United States can force a client to pay a debt. A bank can, however, appeal to the legal system, which can then force client to pay. The legal methods a bank can use to recover a debt from client may include foreclosure, repossession and wage garnishment.

Mandar (2010) Repossession of security is aimed at recovery of dues and not to deprive the borrower of the property to enhance loan portfolio performance of the bank. The recovery process through repossession of security involves repossession, valuation of security and realization of security through appropriate means. All these would be carried out in a fair and transparent manner. Repossession is done only after issuing the notice as detailed above. Due process of law followed while taking repossession of the property. The banks take all reasonable care for ensuring the safety and security of the property after taking custody, in the ordinary course of the business.

According to State Bank of Travancore, the Bank's Security Repossession Policy (taking possession of the mortgaged properties under SRESI Act or acquiring the property as non-banking asset through enforcement of decree) aims at recovery of dues in the event of default and is not aimed at whimsical deprivation of the property. The policy recognizes fairness and transparency in repossession, valuation and realization of security. All the practices adopted by the bank for follow up and recovery of dues and repossession of security will be in consonance with the law.

Phil M. Fowler (2014) in his article Laws on Repossessing said that, Repossession laws apply to any transaction where borrowed money is secured by a piece of property, such as a car, tractor, oven or manufacturing belt. If the borrower ever defaults on the secured obligation, then the lender can repossess and resell the security and use the sales proceeds to pay off the defaulted loan.

Financial Web recommends that a client call for voluntary repossession when facing default on an auto loan. This may seem counterintuitive, but it can present loss-mitigation options, meaning a client actually save money over defaulting the normal way. A client may have a chance to save the Bank credit with voluntary repossession over involuntary repossession. To gain these benefits, borrowers who know they will absolutely face default soon often elect simply to surrender their asset.

Monica Steinisch (2014) in her article Repossession: What Creditors Can and Can't Take stated that the following can be repossessed that is to say, Client's home, if the client's home loan is secured by the property you purchased with it. If you do not make your mortgage payments, the bank can repossess the home. This is what happens in a foreclosure. After the bank evicts the client, it sells the property to recover as much of the outstanding loan balance as possible, a car, most auto loans, whether obtained through the dealer, a bank, a credit union or any other lender, give the creditor the right to repossess the vehicle if client default on the car loan. The lender is not required to give prior notice. After repossessing the car, the lender sells it to recover the money you owe. If there is a shortfall between your outstanding loan balance and the sale price, the client may be held responsible for paying it, plus the creditor's repossession expenses, also Rent-to-own items, this includes furniture, electronics, appliances, and anything else the client rent with the option of purchasing, Any property used as collateral, a debt is secured if a specific item of property (called collateral) is used to guarantee repayment of the debt. If a client don't repay the debt (or are in default on the loan for some other reason), most states let the creditor take the property without first suing you and getting a court judgment.

Monica Steinisch (2014) further stated that the following can't be Repossessed that is to say Property not specifically named as collateral. She said that If something is not specifically named as collateral for a debt, it cannot be repossessed, Credit card purchases. Credit card debt is unsecured, which means the credit agreement does not name anything as collateral for the loan. Therefore, items purchased with a credit card cannot be repossessed, Property named as collateral in an unenforceable contract. A contract that does not comply with your state's legal requirements may be void and unenforceable. A lawyer can review your contract for validity and advise you on your consumer rights (Nolo's Lawyer Directory).

Notices of Demand to Borrowers

According to State Bank of Travancore their loan recovery policy states that, while written communication, telephonic reminders or visits by the bank's representatives to the borrowers' place or residence will be used as loan follow up measures, the bank use not initiate any legal or other recovery measures including repossession of the security without giving due notice in writing. The Bank will follow all such procedures as required under law for recovery / repossession of security.

State Bank of India adopts various recovery procedures to recover the debt from its defaulters because there e are various reasons for default like mismanagement, diversification of fund, short fall in investment, will fall default etc. So a credit manager should take various factors into account before lending a loan. The bank through legal system issues demand notice: When a defaulter does not repays loan a demand notice is issued to him that he has to repay his loan with a stipulate time period. Legal notice: When a defaulter does not respond to the demand notice a direct notice is issued to him that if he does not repay the loan action would be taken against him legally and the court notice is issued against him therefore write-offs can be minimized due to legal demand notices as a result, timely payments can be improved hence loan portfolio performance (Pranjalamishra, 2010).

In this case therefore, despite the fact that the literature mentioned afore critically endorses the issues of legal huddles in recovering loans, repossession of security and giving demand notices their relationship with loan portfolio performance were not spelt out. Some of the dimensions like giving demand notices to borrowers weren't examined filly and it was done in foreign country. This study wanted to apply it to centenary bank. Therefore this study was conducted to fill those gaps.

2.1.3 Loan Monitoring

According to CA Case Ware IDEA Inc, (2009) in their article loan portfolio monitoring they ascertain that, the primary business activity of commercial banks is lending and therefore the loan portfolio represents one of the largest assets and a predominate source of revenue. It is also a great source of risk to a bank's soundness. Whether due to lax credit standards, poor portfolio risk management, or weaknesses in the economy, loan portfolio problems have historically been the major cause of bank losses and failures.

They continued to state that, while annual audits of loan portfolios may address these risks, experience has revealed that continuous monitoring of the portfolio is the preferred approach. Identifying control breaches, anomalies and high risk activities early and employing a firm remediation strategy often prevents and certainly minimizes the impact of any potential impairment of the portfolio.

The related their arguments in the context of banks, financial institutions and other enterprises in the financial services sector, the quality of the loan portfolio has singular significance. Portfolio audits are therefore required to determine, by review of electronic records, activities or conditions that require attention before they become problems.

DepotPoint (2005) developed an innovative portfolio risk monitoring solution for banks, private equity and Wall Street firms that hold mortgage backed assets. This solution addresses risks associated with losses due to senior lien foreclosures, equity line draws, tax delinquencies, bankruptcies and mortgage fraud. The noted that instead of spending significant capital to acquire data to build and manage an in house system, organizations can leverage depotpoint solutions to monitor their portfolios against these risks at a fraction of the cost. Their Portfolio Monitoring Module protects loans by providing instant alerts and details on events that affect loan or borrower status, including foreclosure actions, tax delinquencies, bankruptcy and change in homeowner.

Bert Wesselink (2012), also observed that Loan monitoring is the routine collection, analysis, and use of information about how well the portfolio is going, with the aim of controlling the financial operations and adapting it to circumstances. The performance indicators continuously generated through monitoring, management could get constraints and opportunities requiring attention and action. Monitoring may include diagnostic studies of problem areas that can affect the life of the portfolio.

Radhakrishnan, (2013) indicated that proper loan monitoring of banks has assumed greater significance in the effective management of lending and which affect loan portfolio performance of banks. The success of loan monitoring largely depends on two aspects namely the co-operation of the borrower clients in furnishing the required data and statements to the banks on time and the capacity and knowledge of the loan monitoring authorities to take timely decisions and corrective steps to keep the borrower accounts in good health, there after the Bank may start experiencing issues from the borrower regarding monthly repayments hence defaulting, monitoring therefore alerts the borrower about the dues if it is conducted properly can influence loan portfolio performance . Had there been proper and effective loan monitoring, many of the incidents of accounts becoming NPA (Non-Performing Assets), especially in the commercial banks, and the growing volume of unproductive assets could be minimized.

Failure to Monitor Borrowers Collateral Values

A common and very important problem that can affect bank's portfolio performance is their failure to monitor borrowers or collateral values. Many banks neglect to obtain periodic financial information from borrowers or real estate appraisals in order to evaluate the quality of loans on their books and the adequacy of collateral. As a result, many banks fail to recognize early signs that asset quality may deteriorate and missing out opportunities to work with borrowers to stem their financial deterioration and to protect the bank's position in relation to loan portfolio. This lack of monitoring led to a costly process by senior management to determine the dimension and severity of the problem loans and resulted in large losses in loan portfolio.

Francis Bawoledam Aballey, (2009) noted that loan monitoring is the most important area which many lenders pay little attention but, if it is properly carried out, the occurrence of bad debts can be reduced considerably. He identified internal records, visits and interviews, audited accounts and management accounts as some of the things that help in the monitoring process.

Minimization of Bad Loans

Monitoring can minimize the occurrence of bad loans through the following major purposes that it serves: Ensure the utilization of the loan for the agreed purpose, identify early warning signals of any problem relating the operations of the customer's business that are likely to affect the performance of the facility, ensure compliance with the credit terms and conditions, it enables the lender discusses the prospects and problems of the borrower's business.

Despite the fact that the literature clearly identifies segments on how loan monitoring is related to loan portfolio performance, it purely lacks and don't bring in well the concept of alerts, internal records and visits, their relationship with loan portfolio performance particularly in centenary bank. This is the gap this study intended to fill.

2.2.0 Loan Portfolio Performance

According to Mulema, (2013), loan portfolio performance refers to rate of profitability or rate of return of an investment in various loan products .thus broadly, it looks at the number of clients applying for loans, how much they are borrowing, timely payment of installments, security pledged against the borrowed funds, rate of arrears recovery and the number of loan products on the chain. Loan portfolio refers to the total amount of money given out as loans in different loan products, to the different types of borrowers. These loan products may comprise of; Salary loans, Group guaranteed loans, Individual loans and corporate loans. It looks at the number of clients with loans and the total amount in loans. The further stated that Loan portfolio is the banking institutions is most important asset hence, portfolio quality reflects the risk of loan delinquency and determines future revenues and an institutions ability to increase outreach and serve existing customers. Portfolio quality is measured as portfolio at risk over 30 days. How best a loan portfolio is performing is looked at in terms of profitability and /or rate of return on the different loan products, this is a function of the number of the loans and the cost of administering these loans.

Kaggwa .S. N (2013) Loan Portfolio performance includes loans that have been made or bought and are held for repayment. Loan portfolios are the major asset of banks, thrifts, and other lending institutions. The value of a loan portfolio depends not only on the interest rates earned on the loans, but also on the quality or like hood that interest and principal will be paid. An effective management loan portfolio and recovery practice is fundamental to a bank's safety and soundness. Good loan portfolio managers have concentrated most of their effort on prudently approving loans and carefully monitoring loan performance. She emphasizes that all banks need to have basic loan portfolio practices in place in some form. This includes determining whether the risks associated with the bank's lending activities are accurately identified and appropriately communicated to senior management and the board of directors, and, when necessary, whether appropriate corrective action is taken in loan recoveries. This study therefore will concentrate on timely payment of installments rate of arrears recovery, portfolio at risk, Write- offs as expressed bellow.

2.2.1 Timely Payment of Installments

Miller and Andrew Jones, (2014) asserted that timely payment of installment payment is a monetary payment made on a loan that has been disbursed. Miller et al (2014) continued that it is a periodic payment that is typically of a predetermined amount that includes a percentage of interest as well as a percentage of principal so there is the potential for the amount of an installment payment to vary if the loan itself has a variable interest rate, which is common on some mortgages or student loans. They continues to say that, it is common type of repayment plan for many loans such as auto loans, home mortgages, home equity loans and student loans. Therefore the borrower often receives a statement with the number of installment payments remaining on the loan. They also stated that, this installment loan differs from a revolving line of credit because a revolving line of credit may be paid off and used over and over again, and the payment amount will be based on the monthly balance. Miller et al (2014) stated that, in an installment loan, the installment payment is based on the initial amount of the loan plus interest that will accrue over the life of the loan. In some installment loans, equal amounts of principal and interest are paid in each monthly payment, but other loans start off with more going toward interest and less going toward principal each month.

2.2.2 Rate of Arrears Recovery

Business dictionary defines arrears as liability or obligation not met on the due date. Loan payments are in arrears the day after they are dual so called arrearage.

Lessons10 in microfinance articles 2010 states that the largest asset most financial service providers have is the loans they have made to customers, and therefore, protecting their loan portfolio is of critical importance to their long term survival. However, a loan portfolio is an unusual asset because although the loaned money belongs to the institution, borrowers are using it away from the direct control of the institution. So there is a risk attached to the loan portfolio, as the institution cannot always be sure that it will get the money back. What's more, the size and quality (and hence the risk) of the portfolio changes continually as loans are disbursed, payments are made, and loans and payments become due.

2.2.3 Portfolio at Risk

Hope Moses-Ashike, (2011) stated that among other strategies recommended to the Central Bank of Nigeria (CBN) by microfinance operators for facilitating sustainable development of the sub-sector is the increase of Portfolio at Risk (PAR) to 10 percent. The PAR is the outstanding principal amount of all loans that have at least one installment past due for one or more days was pegged at 2.5 percent by the CBN. It is stipulated in the microfinance policy guideline that it shall be required that PAR shall not exceed 2.5 percent at any given time for a microfinance bank. According to the CBN, the amount includes the unpaid principal balance including the accrued interest. Under PAR, loans are considered past due if payment has fallen due and remained unpaid. According to the source, increasing the PAR to 10 percent will improve the ratings of microfinance banks and enable investors know the ones that are healthy enough for investing.

2.2.4 Write-Offs

Jay Monster (2006) says that there are regulations on how long a bank or other lending institution can continue to (try) to collect a "bad debt". When that time expires (varies by state), the institution must "write-off" the loan, meaning they now consider the debt uncollectable (this may or may not coincide with the statute of limitations which sets, again by state, how long a debt may be kept on a credit report, or be taken to court over).

Ciele Edwards, (2014) says that Write- Offs refracts any amount of money that the bank loan to an individual and yet do not receive back qualifies for a general write-off because it was once included in your income. He says that when you write off a bad loan, you claim a tax deduction on the amount you did not receive. This allows the bank to recoup some or all of the loss through the deduction rather than waiting for the debtor to repay what he owes. The IRS then assumes the responsibility of collecting the remainder of the loan from the debtor. He stated that to write-off a loan involves: making a copy of the original loan agreement between the bank and the debtor, make copies of any proof that demonstrates that the debt is worthless, subtract any funds the debtor has already paid you from the total amount you originally loaned him/her, enter the amount of the bad debt deduction in Capital Gains and Losses, write a statement to the bank that includes any details about the loan that were not included in the original loan contract, attach the written statement Capital Gains and Losses and send the Cancellation of Income form that includes the unpaid balance of the loan in his/her annual income.

2.3.0 Loan Recovery Practices and Loan Portfolio Performance

Mulema, (2013) asserts that when there is evidence or plausible reason to assume that the client target groups are unable to make profitable investments with their loans and repay, they should not receive credit because it can deterred the portfolio performance of the bank. he continues that when target groups who have deliberately refused to repay loans in the past should be excluded from future lending and he cautioned that careful borrower selection is not sufficient enough to remove risks during the loan period but Close loan monitoring or in some instances strict loan and /or collateral repossession by the lending institution is called for as a legal and procedure enforcement mechanism. He also contends that despite the utilization of all types of preventive measures, the risk of loan loss remains. Repayment risks can be reduced by various measures and incentives but external risks to lending are always impossible to calculate especially in rural areas so adequate loan loss provisions must minimize the remaining risk. It is also important to diversify the loan portfolio over different branches, locations, scales of enterprises, loan amounts and loan periods. The loan portfolio should be diversified for both reasons of risk and efficiency; a high business volume reduces average unit cost, hence higher credit returns.

Ezaz.A, Ziaur R& Rubina.I (2006) assets that banks should tighten the Policies and practices relating to commercial bank lending to productive sectors and customer, this would lead to changes that would render Bank credit more helpful in promoting the national economic objectives.

Economic times 2003 asserts that once the loan is sanctioned, lenders have to disburse funds in time in line with the terms and conditions of the sanction. Here lenders should give notice of any change in the terms and conditions, including interest rates, or service charges. Lenders should also ensure that changes in interest rates and charges are affected only prospectively. They continue that after disbursement, a bank or institution cannot take a decision to recall/accelerate payment or performance under the agreement or seek additional securities. Lenders have to give notice to borrowers, as specified in the loan agreement or a reasonable period, if no such condition exits in the loan agreement all such practices can affect the loan portfolio performance of banks in case of any default.

2.3.1 Reminder Strategies and Loan Portfolio Performance

Rashid, et al (2010) in agreement with Garry Kennedy et al, (2014), Martin. O (2007) and Owen et al (2014) contends that it is paramount for the bank to improve the understanding of both staff and clients on the importance of recovery of loans and how it's beneficial to all parties. It is important for the staff to know why it is important to have a customer friendly recovery process, always send reminder letters to clients and make the guarantors clearly aware of their responsibilities and implications at the time of taking loans. This is critical as it is a cornerstone for loan portfolio performance. However African economic outlook (2005) considers reminders include issues in form of short text (SMS), email or a simple telephone call which can enable the client remember their obligation to the bank thereby making them be in a position to repay their debts. Though UCO Bank, 2013 in agreement with Allahabad Bank asserts that written communications, telephonic reminders or visits by the bank's representatives to the borrowers place or residence are used as loan follow up measures in order to improve loan portfolio performance of banks.

Karlan& Jonathan (2010) asserts that the recent and rapid growth of the microfinance industry in the developing world can be attributed, in large part, to the achievement of impressively high loan repayment rates among micro borrowers. They recommended that, all banks, from strictly for-profit to mission-oriented, would benefit from inexpensive mechanisms for boosting timely repayment rates as loan portfolio measure and lowering administrative costs per borrower. One such solution may be automated loan repayment reminders sent via text (or SMS) on mobile phones.

According to debt collection steps.com 2012 asserts that, early contact can prevent many accounts from going into default and having to be written off as an element of loan portfolio performance. Earlier contact can also help you to know sooner, rather than later, the accounts you can continue to work internally and which ones to immediately outsource for more intensive measures. Banks commonly mail their own reminder notices, in order to bring a customer's loan up to date, or to re-establish checking account and overdraft privileges. They then usually write off accounts after 30-60 days of delinquency, except if the balances are abnormally high.

2.3.2 Procedural Enforcement and Loan Portfolio Performance

In line with debt collection steps.com 2012 they contends that debt collection agencies, if introduced early in the process in this crucial 30-60 day window, are very successful with tactful communications intended to get the account holder re-connected with the bank and resolving their delinquencies. As well as using diplomacy, debt collection agencies can aid banks in sorting out and identifying the "soft" delinquencies from the more problem accounts that should be immediately outsourced. When used early enough, the majority of these accounts can be restored, preventing having to write them off.

Mandar (2010) presupposes that it is impotent to employ debt recovery agent to collect dues/receivables from specified debtors of the bank. They can help the bank to remit the collected funds to principal, keeping account of the receivables collected and yet to be collected and reporting the position and developments to the principal but the bank is liable to sign agency agreement and would require to be accordingly discharged by the debt recovery agent. Because apart from the easily collectible receivables, most banks have on their books overdue receivables from debtors who are not traceable, or who show unwillingness pay or who resist surrendering the security charged. In such cases, the recovery process is difficult and requires handling by specialized collection agencies to process the required expertise. Therefore the agency re-processing the security, initial legal action and tracing the vanished debtors, hence this can influence loan portfolio performance through timely payment of installments, reducing write-off, portfolio at risk and other measures of loan portfolio performance due to legal and procedural actions of the loan agencies.

2.3.3 Loan Monitoring and Portfolio Performance

Rashid, Aloysius & Rogers, (2010) stated that for decades, good loan portfolio managers have concentrated most of their effort on prudently approving loans and carefully monitoring loan performance. The further contends that effective loan portfolio management begins with oversight of the risk in individual loans. Prudent risk selection is vital to maintaining favorable loan quality. Therefore, the historical emphasis on controlling the portfolio of bank loan approvals and managing the performance of loans continues to be essential. But better technology and information systems have opened the door to better management methods. This is an area that needs to always be prefect in the business of lending. They also argued that, monitoring is paramount to be able to enable both clients and the bank not to be caught unaware. It is therefore paramount that the bank calls their clients on a regular basis to find out how their businesses are running, have monthly bank visits to clients, and respond to client concerns with urgency hence this will result in a decrease in loan portfolio and nonperforming loans.

Cynthia, (2012) Bank management should develop reporting to track specific elements of lending, such as accounts receivable and inventory valuation at the individual loan or line level, over-credit-line reporting, as well as sub-category reporting. Sub-category reporting is particularly helpful in assessing concentrations in lending. Given the variety of industries, business cycles, and collateral in banking portfolio, measuring concentrations at the sub-category level will provide management with better indicators of concentration risk. Internal and external loan review, as well as internal audit, should provide assurance that loans are underwritten in accordance with policy that credit administration activities are timely and comprehensive, and that emerging portfolio issues are identified promptly. A bank may choose to focus its review efforts on loans originated in the previous 12 months, those with larger-dollar credit exposures, borrowers with a history of frequent delinquencies, and borrowers with a history of covenant violations. Bank management may also need to consider outsourcing some aspects of internal audit if current audit staff does not have sufficient experience to audit lending activities.

Information gleaned from monitoring and reporting will also be helpful in establishing appropriate provisions for losses on loans. Management should review the Interagency Policy Statement on the Allowance for Loan and Lease Losses (ALLL) for guidance on establishing appropriate ALLL levels when entering into new lending areas for which historical loss information may not be available.

Credit Union Magazine 2010 suggested that, the bank should Monitor financial reporting, and monitor the health of the borrower's. According to them, the reports should include annual balance sheets, profit-and-loss reports, and tax returns for both the borrower and guarantors, where by delays sometimes signal negative performance or defaults in loan covenants. They also suggested that, banks need to validate collateral because many business loans are collateralized by working capital (accounts receivable and inventory). The loan balance should be based on an advance rate, such as 75% or 80% of the 30- to 60-day accounts receivable balance for better loan portfolio performance. They also recommend loan documentation as the bank check underlying loan documentation must consider the collateral in form of certificates of title for vehicles in case. Note only that, they also emphasizes communication by meeting regularly with the borrowers, asking them questions and check out their facilities and trends relating to the borrower's customers, shipments, and cash flow as a tool of monitoring loans. They also recommended Risk-rating worksheet in executing monitoring process and update each worksheet as soon as the bank receives the borrower's financial reports in order to improve loan portfolio performance in commercial banks.

Martin. O (2007) asserts that banks does not do frequent monitoring, checks and follow-ups on customers that had borrowed. He recommended that credit department be properly resourced and facilitated to visit the customers regularly. Reminders in form of text messages to customers' mobile phones and reminder letters are encouraged.

2.4 Summary

In relation to reminder strategies loan recovery is assuming an alarming trend as its growth, is looking almost unstoppable, but different banks employ reminder strategies such as telephonic reminder, written communication and follows up practices as it was stated by Montana, (2012).The literature also revealed a lesson to the researcher that there are many recovery problems in African banks and beyond. Therefore, it was advised by different researchers for banks to use short text (SMS), email or a simple telephone, friendly payment reminder, contact customer with a final notice, email, sending a formal letter of demand and use of loan collecting agency as expressed by Garry Kennedy et al, (2014) to avoid non-performing asset. Another lesson learnt by the researcher was revealed by Sharon D'Souza, (2011) in her article, she stated that a bank can use multiple channels for loan recovery that is to say the use of non-intrusive channels such as SMS, e-mails, dunning letters and interactive voice response. All of these can affect loan portfolio performance of banks.

Even though the literature reviewed was too rich in establishing different reminder strategies, most of it falls short of specificity. It does not show the link between loan reminder strategies and how it can affect loan portfolio performance of banks clearly. Also most of these studies were conducted in other parts of the world and they seem to ignore Africa, Uganda and local centenary bank perspectives focusing on Entebbe road branch. Therefore the researcher carried out this study to identify whether centenary bank Entebbe road branch uses the same reminder strategies, to identify the challenges associated with them and to suggest the solutions to overcome such challenges, this study was conducted essentially to fill this gap.

In relation to legal and procedural enforcement on loan portfolio performance of banks the researcher leant from the article of Yogesh Sapkale (2013) that Banks facing legal hurdles while recovering bad loans and in some countries defaulters are found obtaining stays from any court, including labour courts and also banks use two options in case of bad debt, recover and restructure where by recovery option is used when there is other choice left and restructuring of loans is mostly used whenever possible. In Ciele Edwards, (2014) the researcher leant that the bank can use legal actions like foreclosure, repossession and wage garnishment as means of recovering loans in order to stabilize its loan portfolio performance. It was also revealed in Monica Steinisch, (2014) that the bank can specify what to repossess and not to repossess from the customers.

Despite the fact that the literature mentioned afore critically endorses the issues of legal huddles in recovering loans, repossession of security and giving demand notices their relationship with loan portfolio performance were not spelt out. Some of the dimensions like giving demand notices to borrowers weren't examined filly and it was done in foreign country. This study wanted to apply it to centenary bank specifically Entebbe road branch to see whether what was reviewed by other research is exactly what is taking place in centenary bank Entebbe road branch by identifying legal and procedural challenges, solutions to the challenges and other legal and procedural techniques used by the bank. Therefore this study was conducted to fill those gaps.

It was revealed that continuous monitoring of the portfolio is the preferred approach. Portfolio audits are therefore required to determine, electronic records, activities or conditions that require attention before they become problems. The researcher also learnt that portfolio monitoring module protects loans by providing instant alerts and details on events that affect loan or borrower status, including foreclosure actions, tax delinquencies, bankruptcy and change in homeowner.

Gap in Knowledge

The researcher discovered that loan monitoring of banks has assumed greater significance in the effective management of lending and which affect loan portfolio performance of banks where by the success of loan monitoring largely depends on two aspects namely the co-operation of the borrower clients in furnishing the required data and statements to the banks on time and the capacity and knowledge of the loan monitoring authorities to take timely decisions and corrective steps to keep the borrower accounts in good health. Monitoring therefore alerts the borrower about the dues if it is conducted properly can influence loan portfolio performance. Had there been proper and effective loan monitoring, many of the incidents of accounts becoming NPA (Non Performing Assets) can be minimized. Therefore Francis Bawoledam Aballey, (2009) identified internal records, visits and interviews, audited accounts and management accounts as some of the things that help in the monitoring process to ensue loan portfolio performance so it minimizes the occurrence of bad loans through the following major purposes that it serves: Ensure the utilization of the loan for the agreed purpose, identify early warning signals of any problem relating the operations of the customer's business that are likely to affect the performance of the facility, ensure compliance with the credit terms and conditions, it enables the lender discusses the prospects and problems of the borrower's business.

Despite the fact that the literature clearly identifies segments on how loan monitoring is related to loan portfolio performance, it purely lacks and does not bring in well the concept of alerts, internal records and visits, their relationship with loan portfolio performance particularly in centenary bank. This is the gap this study intended to fill.

CHAPTER THREE

METHODOLOGY

This chapter looks at the methods that was used during the research study and the basic contents in this chapter included; research design, area of the study, target population, sample techniques and sample selection, research instruments, data collection procedure, data analysis and the limitations the researcher faced during the study process and their resolutions.

3.0 Research Design

A case study and correlation design was used; a case study was centenary bank focusing on Entebbe road and correlation design was chosen so as to test the relationship between independent variables (loan recovery practices) and the dependent variable (loan portfolio performance).

3.1 Area and Target Population

The study was carried out at centenary bank focusing on Entebbe road with key participants who included staff and customers. Among the staff the research had; banking officers, branch managers, loans officers, and credit administrators, customer service consultants and management trainees. These participants were selected using convenience sampling because it uses individuals who are easy to get, also these categories of respondents were responsible for keeping the financial institution afloat, mobilization of customers and attending to spastic needs of customers/ borrowers.

3.2.0 Sampling Design and Procedure

3.2.1 Sampling Design

The study used both probability and non-probability sampling design. From the existing probabilistic sampling design, the study used simple random sampling techniques. Simple random sampling was used to select banking officers and loans officers, in centenary bank. This technique was chosen because the category of banking and loans officers had a large population size and as such warranted simple random sampling to minimize sampling bias (Mugenda & Mugenda, 2003). From the existing non-probabilistic sampling design; census and convenience sampling was also used. Census sampling was used to select credit administrators, customer service consultants, managers and management trainees because all of them were of much importance to the study. The convenience sampling was used to select customers because the number of customers that was required in the study weren't just randomly being landed onto. Also the researcher went ahead to employee a stratified random sampling. This technique was employed to ensure a fairly equal representation of the variables for the study. Therefore the targeted population was divided into a number of strata according to the significant groups in the population. The researcher managed to establish the population for each stratum using a simple random sampling design after which the individual respondents were managed from each stratum.

3.2.2 Sampling Procedure

The researcher worked with a sample size that was selected to be representative of the population, Sekaran, (2003) observes that collecting data from the entire population would be practically impossible and it would be very difficult to examine elements in the population. In addition it would be prohibitive in terms of time, cost, and other resource input. Study of a sample is therefore likely to produce more reliable and quick results because fewer errors resulted during the data collection exercise. The sample size was determined using the table as Appendix iii from a study by Morgan and Krejcie (1970, as cited in Amin, 2005)

3.3.0 Sample Size

The sample size of study was selected using Krejcie& Morgan 1970 (Amin, 2005). Selection of Centenary Bank Customers was done using convenience sampling since it is the best way of getting them when it comes to the Bank. Simple random sampling was used to select banking officers and loans officers and Census sampling was used to select credit administrators, customer service consultants, managers and management trainees. A total target population of staff and customers of the bank was 114 including; banking officers, branch managers, loans officers, credit administrators, customer service consultants, management trainees. The research sampled 107 respondents, in order the researcher to come up with this sample size, he randomly sampled the respondents, used census and convenience sampling techniques.

Table 3. 1: Illustrates the study population, sample size and technique to be used

Category	Population size	Sample size	Sampling technique
Loan officers	30	28	Simple random sampling
Banking officers	44	40	Simple random sampling
Managers	5	5	Census
Credit Administrators	5	5	Census
Customer service consultants	4	4	Census
Management trainees	6	6	Census
Customers	20	19	Convenience sampling
Total	**114**	**107**	

Source: ***Human Resource Information system (HRIS) Centenary Bank (2014)***

3.4.0 Data collection

The study employed three methods of data collection that is the questionnaire, interview and documentary review.

3.4.1 Sources of data

Data was obtained from both primary and secondary sources. Primary data was obtained by using open and closed questionnaires that was given to staff and customers and interviews that was conducted with banking officers, branch managers, loans officers, credit administrators, customer service consultants, management trainees and customers. Secondary data was obtained by use of a documentary review checklist.

3.4.2 Methods and Instruments of Data Collection

a) **Questionnaire:** This was used to collect primary data from banking officers, branch managers, loans officers, credit administrators, customer service consultants, management trainees and customers, and, it involved administered questionnaires. Therefore administering of questionnaire was a method while questionnaire formed instruments employed

The method of survey using questionnaire was deemed appropriate since part of the questionnaire offered customers a choice of picking their answers from a given set of alternatives while the other part of the questionnaire allowed them to qualify their responses (Amin, 2005). Questionnaires were advantageous since they can reach to thousands of people all at once. Self-administered questionnaires saved time and money needed to hire people to query the public. Still the questionnaire was advantageous because was answered anonymously; this means that sensitive and personal questions ware more likely to be answered.

b) **Interview:** This was used to collect primary data from banking officers, branch managers, loans officers, credit administrators, customer service consultants, management trainees and customers. It involved the use of a semi-structured interview schedule as an instrument while interviewing was a method. The method of interview using interview guide was deemed appropriate since the aforementioned categories of staff and customers had vital information yet had no time to fill in questionnaires (Sekaran, 2003).

c) **Documentary Review:** This was used to collect secondary data from centenary bank, public and private libraries with literature relevant to the research topic.

3.4.3 Data Collection Procedure

The researcher obtained a letter from graduate school of Kyambogo University introducing the him to Centenary Bank Entebbe Road Branch specifying that the data to be collected was solely for study purposes. Upon obtaining the requisite permission the researcher proceed with data collection starting with giving out questionnaires to the staff and customers. After that interview was conducted with banking officers, branch managers, loans officers, credit administrators, customer service consultants, management trainees and customers

3.4.4 Data Quality Control

a) **Validity:** Validity refers to how accurately the instruments capture data that gives meaningful inferences (Mugenda & Mugenda, 2003). Instrument validity was ascertained in the following ways; discussing the questionnaire with the colleagues, there after adjustments were done before submission to the supervisor who assessed the face validity. This helped to assess the appropriateness of sentence construction, comprehensiveness of instruments and language clarity. Comments were received on the acceptability of the instrument in terms of; length and the privacy of respondents. These comments were helpful in designing the final instrument that was used to generate data. To measure the validity of variables and measure relationship between Loan Recovery Practices and Loan Portfolio Performance in Centenary Bank, a validity test was carried out, and the Content Validity Index (CVI) calculated prior to the administration of the research instruments. This was intended to find out whether the questions are capable of capturing the intended data that was stated in the research objectives and questions.

b) **Reliability:** Gall (1996), defines reliability as the degree of consistency of the measuring instrument. This agrees with Mugenda and Mugenda (2003) who stated that reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials. Reliability of an instrument being the consistency of an instrument in measuring what it is intended to measure the questionnaire was assessed using Cronbach's coefficient alpha for the entire instrument which gave an acceptable estimate of 83.4% on Loan recovery practices and 87.6% on the side of Loan Portfolio Performance. The social sciences research accepts variables scoring a coefficient above 0.70. Reliability was also ensured through test-retest procedure of both the questionnaire and the interview guide. The supervisors also reviewed the questionnaire and the interview guides to ensure that they were capable of capturing the required data.

Table 3. 2: Reliability Statistics

Loan recovery practices	Number of items	Cronbach's Alpha
Reminder strategies	8	0.533
Legal and Procedural Enforcement	10	0.983
loan Monitoring	9	0.985
Average Loan recovery practices		**0.834**
Loan Portfolio Performance		
Timely payment of installments	12	0.981
Rate of arrears recovery	6	0.969
Write- offs	7	0.979
Portfolio at risk	9	0.586
Average Loan Portfolio Performance		**0.876**

Source: Primary data SPSS Statistics

3.5.0 Measurement of Variables

Mugenda et.al (2003) supports the use of nominal, ordinal, and Likert rating scales during questionnaire design and measurement of variables. A nominal scale is the level of measurement which differentiates between items or subjects based only on their names. The nominal scale was used to measure such variables as gender, marital status, among others. An ordinal scale is the level of measurement which differentiates between statements based only on the numbers. The ordinal scale was employed to measure such variables as age, level of education, years of experience, among others. The five point Likert type scale (1- strongly disagree, 2-disagree, 3-not sure, 4- agree and 5-Strongly agree) was used to measure the independent variable (Loan recovery practice) and the dependent variable (loan portfolio performance). The choice of this scale of measurement is that each point on the scale carries a numerical score which is used to measure the respondent's attitude and it is the most frequently used summated scale in the study of social attitude. According to Mugenda (2003) and Amin (2005), the Likert scale is able to measure perceptions, attitudes, values and behaviors of individuals towards a given phenomenon.

Table 3. 3: Showing the Mean range of the likert scale

Response	Mean range	Scale	Interpretation
Strongly disagree	1.00-1.80	1	Very Low
Disagree	1.81-2.60	2	Low
Not sure	2.61-3.40	3	Moderate
Agree	3.41-4.20	4	High
Strongly agree	4.21-5.00	5	Very High

3.6.0 Data Processing and Analysis

3.6.1 Quantitative Data Processing

Quantitative data was processed by use of Software package for social sciences (SPSS) where it was be edited, coded, entered, and then presented in comprehensive tables showing the responses of each category of variables and tables were used to present findings.

Qualitative data was collected from the field, organised, edited for spelling mistakes and cross checked to establish the different issues arising from undertaking the research study. Coding of data was undertake manually and entered into computer using the Statistical Package for Social Scientists (SPSS) in order to classify respondents' views into meaningful form of information.

3.6.2 Analysis

Quantitative data analysis involved use of both descriptive and inferential statistics in the Statistical Package for Social Sciences (SPSS).Descriptive statistics entailed determination of measures of central tendency such as mean and measures of dispersion such as standard deviation and percentages. Inferential statistics included correlation analysis using a correlation coefficient in order to answer the research questions. According to Sekaran (2003), a correlation study is appropriate to conduct the study in the natural environment of an organization with minimum interference by the researcher and no manipulation. A correlation coefficient was computed because the study entailed determining correlations or describing the association between two variables (Oso & Onen, 2008). At bi-variant level, loan recovery practices such as (Reminders Strategies, Legal and Procedural Enforcement and Loan Monitoring) as an independent variable was correlated with loan portfolio performance using Pearson's Correlation Coefficient. However there was a need to run a simple regression analysis to confirm whether the relationship was predictive or not. Also the researcher computed a multiple regression analysis to confirm the relationship between Loan Recovery Practices and Loan Portfolio Performance.

3.6.2 Qualitative Data Analysis

Qualitative data analysis involved both thematic and content analysis, and, was based on how the findings related to the research questions. Content analysis was used to edit qualitative data and reorganize it into meaningful shorter sentences. Thematic analysis was used to organize data into themes and codes identified (Sekaran, 2003). After data collection, information of same category was assembled together and their similarity with the quantitative data created, after which a reported in writing. Qualitative data was interpreted by composing explanations or descriptions from the information. The qualitative data was illustrated and substantiated by quotation or descriptions.

3.7 Ethical Considerations

The researcher formulated the research instrument that was readable and easy to interpret by all respondents. The researcher hired research assistants that helped him during the survey. The study was ethical in terms of respecting the participants' welfare, dignity, and their right to privacy and confidentiality. The statement regarding the coding of the data to protect the participants' identity was intended to alleviate concerns of confidentiality and privacy. The inducement policy of exciting respondents with hand-outs like cash was not allowed to prevent false/exaggerated information for the study. The study was done after submission and approval of the research proposals by the University authorised supervisors.

In addition formed consent of the respondents was obtained before participating in the survey. The participants were allowed to withdrawal from the study at any time without penalty. They were further informed about the nature and benefit of the research/study as being part of the study requirements for the award of the student's Master Degree at the Kyambogo University. Finally when reporting results, accurate representation was observed from participant's questionnaire and interview responses and observations were put into rightful context.

3.8 Limitations of the study and Delimitations

Some bank officials at fist resisted giving confidential information, which was sufficient to the study. However, the researcher convinced them that research was intended to help them improve on their problems and informed them that, the data collected from respondents, customers and management basically was for academics and research purposes only.

- **Limited Time:** There was too much pressure as a result of limited time for the researcher. However, the researcher devoted most of the time on the research.
- **Financial constraint**: Research requires money for printing and transport among others. However, the researcher minimized the costs as lowest as possible.
- **Failure to interpret Questions:** Some respondents failed to interpret some of the questions in the questionnaire. However, the researcher tested the instruments and used an assistant who helped the respondents to interpret for them some questions.
- **Unwillingness to Respond.** The researcher encountered the problem of poor response by the respondents. This was expected to delay the exercise. However, through physical contacts by the researcher, research assistant the researcher got the information.

CHAPTER FOUR

ANALYSIS, PRESENTATION AND INTERPRETATION OF THE FINDINGS

This chapter presents finding on the relationship between loan recovery practices and loan portfolio performance of commercial banks in Uganda specifically focusing on centenary bank Entebbe road branch that was considered to address the relationship between reminder strategies and loan portfolio performance of Centenary Bank, assess the relationship between legal and procedural enforcement and loan portfolio performance of Centenary Bank and to evaluate the relationship between loan monitoring and loan portfolio performance of Centenary Bank

4.0 Response Rate

Out of 107 targeted participants 84 responded giving a response rate of 78.5% as indicated in table 4.1. Kathuri (2005) who noted that 70% of the respondents are enough to represent the sample size set for the study.

Table 4.1 Response rate

Category	Intended	Attained	% Attained
Loan officers	28	20	71.4%
Banking officers	40	30	75%
Managers	5	5	100%
Credit Administrators	5	5	100%
Customer service consultants	4	4	100%
Management trainees	6	5	83.3%
Customers	19	15	79%
Total	**107**	**84**	**78.5%**

Source: *Human Resource Information system (HRIS) and Primary* data collections *Centenary Bank Entebbe road branch (2014)*

4.1. Backgrounds of the respondents

This section presents the distribution of respondents by gender, marital status, and duration of services, education levels and positions.

4.1.1 Gender of the Respondents

Table4.2: Presents the gender of respondents as below;-

Items	Frequency	Percent	Cumulative Percent
Male	50	59.5	59.5
Female	34	40.5	100.0
Total	**84**	**100.0**	

Source: Primary data 2014

The results revealed that 59.5% respondents were male, and 40.5% female, implying that there is good representation of male and female among the employees; this shows that there was equitable (proportionate) participation of both men and women.

4.1.2 Duration of Service at the Bank

The researcher was interested in obtaining information about the duration of service at centenary bank by respondents and analyze whether it has a relationship with loan portfolio performance of centenary bank Entebbe Read branch based of recovery practices employed. The results that were recorded in table 4:3

Table 4.3: Duration of service at Centenary Bank

Items	Frequency	Percent	Valid Percent	Cumulative Percent
0- 1year	1	1.2	1.2	1.2
1 year	6	7.1	7.1	8.3
2-5 years	4	4.8	4.8	13.1
6-10 years	64	76.2	76.2	89.3
At least 11 years	9	10.7	10.7	100.0
Total	**84**	**100.0**	**100.0**	

Source: Primary data 2014

Most of the respondents had been working with Centenary for more than 6-10 years and those took 76.2%, this therefore, means that the study was based on respondents that had enough experience and gave relevant information on loan recovery practices and Loan Portfolio Performance in financial institutions.

4.2.3 Education levels of Respondents.

The researcher was also interested in obtaining and finding out the highest education qualifications of the respondents in order to identify whether it has a relationship with loan portfolio performance. The results that are recorded in table 4:4.

Table 4.4: Highest education qualifications

Item	Frequency	Percent	Valid Percent	Cumulative Percent
Master degree	19	22.6	22.6	22.6
Diploma	3	3.6	3.6	26.2
Bachelor's degree	18	21.4	21.4	47.6
Post graduate diploma	40	47.6	47.6	95.2
Professional qualifications	2	2.4	2.4	97.6
Others	2	2.4	2.4	100.0
Total	**84**	**100.0**	**100.0**	

Source: Primary data 2014

Most of the respondents among centenary bank staff at Entebbe road branch had attained post graduate diploma and those constituted 47.6% of the respondents.

This completely provides a balanced picture that required by the study as per the mental, competence and cognitive capacity of the respondents. Therefore the level of education of the respondents in the study addressed the assessment loan recovery practices such as reminder strategies, legal and procedural enforcement and loan monitoring as used by centenary bank as dimensions for achieving loan portfolio performance based on timely payment of installments, rate of arrears recovery, write-off and portfolio at risk as indicated in the conceptual framework.

4.2.4 Position held in Centenary Bank

The position of the respondents in centenary bank was determined to find out whether it has a direct relationship with loan portfolio performance of Centenary Bank and their responses are indicated in table 4.5

Table 4.5: Position held in Centenary Bank

Items	Frequency	Percent	Valid Percent	Cumulative Percent
Loan officers	20	23.8	23.8	23.8
Banking officers	30	36.1	36.1	59.9
Managers	5	6	6	65.9
Credit Administrators	5	6	6	71.9
Customer Service Consultants	4	4.8	4.8	76.7
Customers	15	17.9	17.9	96.6
Management trainees	5	6	6	100.0
Total	84	**100.0**	100.0	

Source: Primary data 2014

From the table above 23.8% of the respondents were loans officers, 36.1% were banking officers, 6% were managers, credit administers as well as management trainees, 17.9% were customers and 4.8% constituted customer service consultants. This implies that the respondents were representative enough to support the study.

4.2.5 Marital status of the respondents

The researcher was also interested in finding out whether marital status of the Centenary Bank staff has a great relationship with loan portfolio performance based on recovery practices employed. Below are the results that were recorded in table 4:6

Table 4.6: Marital status of the respondents

Items	Frequency	Percent	Valid Percent	Cumulative Percent
Married	36	42.9	42.9	42.9
Widowed	4	4.8	4.8	47.6
Single	23	27.4	27.4	75.0
Divorced	3	3.6	3.6	78.6
Cohabiting	16	19.0	19.0	97.6
Others	2	2.4	2.4	100.0
Total	**84**	**100.0**	**100.0**	

Source: Primary data 2014

Most of the respondents were married and those constituted 42.9% of the respondents, 27.4% of the respondents were single, 19.0% of the respondents were cohabiting, 4.8% of the respondents were widowed, 3.6 % of the respondents represented divorced staff and 2.4% of the respondents represented others.

4.3 Loan recovery practices

Loan recovery practices were the independent variable in this study and consisted of; Reminder Strategies, Legal and Procedural Enforcement and Loan Monitoring

In the next sub section each of them were discussed and the results were summarized in SPSS using the Likert scale of 1-5 where: Scale (1 = strongly disagree), (2 = Disagree), (3 = Not certain), (4 = Agree), (5 = Strongly Agree) and mean range table.

4.3.1 Reminder strategies as a loan recovery practices at centenary Bank Entebbe Road Branch

Objective one in this study was, to examine the relationship between reminder strategies and loan portfolio performance of Centenary Bank Entebbe road branch are presented in table 4:7

Table 4.7 Descriptive statistics on reminder strategies

Reminder strategies	1	2	3	4	5	Mean	Std deviation
We use written communication.	3.6	4.8	6.0	52.4	33.3	4.071	.9542
We use appropriate medium to communicate with our customers.	4.8	2.4	4.8	35.7	52.4	4.286	1.0128
We usually send representatives to our customers.	7.1	10.7	11.9	38.1	32.1	3.774	1.2159
We always give loan due notices to our customers.	6.0	3.6	14.3	40.5	35.7	3.964	1.0915
We usually contact our customers in time before loan overdue notice.	2.4	4.8	10.7	47.6	34.5	4.071	.9286
We always use loan agencies to collect un outstanding money.	11.9	14.3	21.4	27.4	25.0	3.393	1.3264
We also use interactive voice response.	1.2	4.8	25.0	39.3	29.8	3.917	.9211
We usually send dunning letters to our customers.	9.4	8.3	9.5	40.5	32.1	3.774	1.2549
Overall mean and standard deviation						**3.906725**	**1.088157**

Source: Primary data (2014)

Table 4:7 shows the overall mean of 3.906725. Therefore basing on table 3:3, if the mean range is between 3.41-4.20 it indicates a scale of 4(four) which means that majority of the respondents highly agreed to all the statements related to reminder strategies that the bank uses written communication, uses appropriate medium to communicate with customers, usually send representatives to customers, always give loan due notices to their customers, contact customers in time before loan overdue notice , always use loan agencies to collect un outstanding money, use interactive voice response and send dunning letters to customers.

Results on other reminder strategies

According to the assessment and interviews, the respondents both staff and customers of centenary bank reported that the bank use reminder strategies such as sending SMS alerts, phone calls, the bank also contact customers through guarantors, the a group of officers from the bank meet customers physically as a team and the bank employ a face to face strategy as other means of reminding customers over the loan overdue. This position was also supported by African economic outlook (2005), UCO Bank (2013), Allahabad Bank (2013*) and Owen (2014).*

Challenges the Bank Faces

The researcher was interested in identifying the challenges the bank face in the due course of using reminder strategies as a practice of loan recovery. According to the interviews the research conducted, the respondents mentioned the following challenges.

i. Resistance from customers to appear in courts
ii. The legal procedure is too long and time consuming
iii. Some customers sell off collateral and relocate.
iv. There are very many defaulters

4.3.2 Legal and procedural enforcement as loan recovery practice.

Objective two of the study was, to assess the relationship between legal and procedural enforcement and loan portfolio performance of Centenary Bank. Table 4:8 describes the legal and procedural enforcement as a Loan Recovery Practice at centenary bank. Their responses were computed by making an aggregate of responses given by respondents based on a five point likert scale (1=strongly disagree; 2=Disagree; 3=Not sure; 4=Agree; 5=strongly agree) was used, which sought to assess the effect of legal and procedural enforcement in centenary bank. This was scrutinized according to the percentages, mean and standard deviation as illustrated in table 4:8 below.

Table 4.8: Descriptive statistics on legal and procedural enforcement

Legal and procedural enforcement	1	2	3	4	5	Mean	Standard deviation
We usually face legal and procedural hurdles while recovering loans from defaulted customers.	3.6	6.0	7.1	52.4	31.0	4.012	.9755
We usually find loan defaulters obtaining stays from legal courts.	20.2	19.0	7.4	22.6	10.7	2.845	1.2847
We always repossess securities/collateral.	2.4	6.0	8.3	22.6	60.7	4.333	1.0218
We usually provide penalties for late payments.	2.4	4.8	6.0	44.0	42.9	4.202	.9285
We always carryout realization of security before we provide a loan to customers.	1.2	9.5	13.1	52.4	23.8	3.881	.9236
Repossession of security is done only after issuing demand notice.	10.7	0	10.7	23.8	54.8	4.119	1.2744
We recover all outstanding dues by encouraging customers sale the security to set better proceeds/ reputation	11.9	11.9	14.3	36.9	25.0	3.512	1.3125
We always encourage customers to dispose off their property.	9.5	2.4	35.7	28.6	23.8	3.548	1.1658
We always have an option for customers to call for voluntary repossession of security when facing defaulting.	3.6	9.5	7.1	59.5	20.2	3.833	.9797
We specify the security to repossess and not to repossess.	15.5	9.5	6.0	44.0	25.0	3.536	1.3749
Overall mean and standard deviation						**3.7821**	**0.989435**

Source: Primary data (2014)

Basing on table above, the overall mean was 3.7821 in relation to table 3.3 this mean range means that majority of the respondents agreed with the statements that Centenary Bank Entebbe road branch usually uses legal and procedural enforcement while recovering loan overdue from the customers. Therefore, the usually face legal and procedural hurdles while, usually find loan defaulters obtaining stays from legal courts, always repossess securities/collateral, usually provide penalties for late payments, always carryout realization of security before they provide a loan to customers, repossession of security is done only after issuing demand notice, recover all outstanding dues by encouraging customers sale the security to set better proceeds/ reputation, always encourage customers to dispose off their property, have an option for customers to call for voluntary repossession of security when facing defaulting and they specify the security to repossess and not to repossess.

Other legal and procedural enforcement

The researcher was interested in identifying whether centenary bank Entebbe road branch use other legal procedural and procedural enforcement while recovering loans, according to the findings from the interviews, respondents both staff and customers of the bank reported that the bank also engages auctioneers, considers guarantors are contacted were necessary, involves court bailiffs, uses debt collectors, writes reminders and giving three demand notices, uses of internal and external advocates, uses coercion method, also carry out group recovery and involves police officers and it also tends to employ third party recovery method as well as litigation of any method in order to recover defaulted loans.

Challenges the bank faces

The researcher also employed an interview to reveal the challenges employees faced in legal and procedural enforcement method while recovering bad loans. The respondents reported that customers with delinquent loans don't take it in good faith, legal and procedures enforcement method always take long time, sometimes affects the reputation of the bank, non-compliance on the side of spouse was also sighted, court influence was mentioned, high interest rates, threats on bank staff lives, sabotage from big offices and police officers, filling badly file documents, bureaucracy attached to the mortgage act, long procedures involved, legal department does not support loan section well, resistance from customers when the bank want to sell the security, the method is not cost effective, customers engages their lawyers to prolong the recovery process, sometimes customers refuse to acknowledge receipt of demand notices, lack of strong legal department at each branch level, false securities appears during the time of disposing of the collateral, advertising collateral is too costly, creates enmity with customers and selling collateral security at low prices.

Overcoming the Legal and Procedural Enforcement challenges

Also the researcher was interested in identifying the suggested solutions while recovering bad loans, and the interviews revealed that both staff and customers reported that the bank should; Sensitize customers on legal procedures, prudent appraisal, compliance, involving court brokers, selling off collateral, ensuring spouses signs and consent in front of bank officials, team work and facilitation from the bank, relationship management with customers, financial literacy, independent decision while lending, right documentations of documents, proper filling of documents, protection in form of security to loans officers and other parties involved, shortening the procedure of disposing of security, legal department should be more involved, reminding customers to know their obligations, recovery department at each branch, shortening legal procedure, judiciary should be very active and Through verification of collateral security using local authorities.

4.3.3 Loan Monitoring in Centenary Bank

Objective three of the study was; to evaluate the relationship between loan monitoring on loan portfolio performance of Centenary Bank. Table 4:9 describe the loan monitoring as a loan recovery practice at centenary bank. Their responses were computed by making an aggregate of responses given by respondents based on a five point Likert scale (1=strongly disagree; 2=Disagree; 3=Not sure; 4=Agree; 5=strongly agree) was used. This was scrutinized according to the percentages, mean and standard deviation as illustrated in table 4.9

Table 4.9: Descriptive statistics on findings on loan monitoring

Loan Monitoring	1	2	3	4	5	Mean	Standard Deviation
We have clear loan monitoring framework/policy	14.3	9.5	20.2	28.6	27.4	3.452	1.3657
We carryout loan portfolio audit	1.2	0.0	0.0	66.7	32.1	4.286	.59
We carryout regular loan monitoring	10.7	3.6	15.5	35.7	34.5	3.798	1.26
We monitor loans which don't have problems	13.1	3.6	11.9	45.2	26.2	3.679	1.27
We monitor loans physically	7.1	17.9	28.6	13.1	33.3	3.476	1.31
The bank's loan monitoring is carried out by different people	11.9	19.0	34.5	10.7	23.8	3.155	1.31
We follow out budget when we are monitoring loans	2.4	19.0	26.2	20.2	32.1	3.607	1.19
We have enough expertise to monitor loans	9.5	4.8	2.4	46.4	36.9	3.964	1.21
internal records to ensure effective loan monitoring	1.2	3.6	16.7	44.0	34.5	4.071	.88
We face challenges in loan monitoring	4.8	10.7	9.5	38.1	36.9	3.917	1.15
Remedies to overcome these challenges	7.1	9.5	3.6	32.1	47.6	4.036	1.25
Overall mean and standard deviation						**3.77**	**1.163**

Source: Primary data 2014

The overall mean was 3.77 , which means that majority of the respondents agreed that Bank has clear loan monitoring framework/policy, carryout loan portfolio audit, always carryout regular loan monitoring, monitoring even on loans which do not have problems, that they monitor loans physically, that loan monitoring is carried out by different people, they follow out budget when while monitoring loans, have enough expertise to monitor loans, and that they carry out internal records to ensure effective loan monitoring. This mean range clearly means that the bank's loan recovery is doing well.

Challenges in Loan Monitoring

The researcher was interested in identifying the challenges the bank faces in the due course of carrying out loan monitoring as a practice of loan recovery. According to the interview results, the respondents both staff and customers of centenary bank, reported the following challenges; including, long distance to customers, lack of facilitation, too much work load, wrong information about market stand, cost of operations, mobility, customer changing contacts, mobile businesses of customers, size of the portfolio, system overlaps, months that end on Sunday also affects the system, increase in number of customers, internet, time management, lack of enough experience staff, collapse of businesses, threats from the customers, un committed loans officers, poor cooperation, poor policy mechanisms and prolonged legal associates.

Overcoming loan monitoring challenges.

The researcher was interested in identifying the solutions to challenges the bank face in the due course of carrying out loan monitoring as a practice of loan recovery. According to the assessment and interviews, the respondents both staff and customers of centenary bank reported that the bank should; employ more loans officers, training personnel to copy up with the changing technology and the systems used by the bank, improve on facilitation, cost reduction policies and cost cutting programs, strategic appraisal, making constant calling and personal contacts, outsourcing personnel, deploying enough staff, sensitization of customers about the importance of leading, reduce on the workload and tasks from some loans officers, the bank should set a target to each loans officer, more branches are needed, involve LCs chair persons, use of guarantors, recruit officers with specific duties of loan monitoring, security provision, registration of businesses, and financial literacy to customers and installation of better IT system.

4.4 Loan portfolio performance

According to conceptual framework (figure 1:1) the dependent variable in this study was loan Portfolio Performance operationalized as Timely payment of Installments, Rate of Arrears Recovery, Write-off and Portfolio at Risk. In each case the respondents were asked to do selfrating in terms of the above variables, using a scale ranging from minimum of one to a maximum of five. Thus a continues dependent variable was generated on Loan Portfolio Performance variable and means and standard deviations determined.

Table 4.10: Descriptive statistics on loan portfolio performance.

Timely payment of installment	1	2	3	4	5	Mean	Std deviation
We always allow payments in installments.	9.5	6.0	16.7	33.3	34.5	3.7738	1.25488
The bank faces challenges in timely payment of installment from the customers.	26.2	2.4	14.3	40.5	16.7	3.1905	1.46012
The bank's timely payment of installment is negotiable.	8.3	7.1	38.1	21.4	25.0	3.4762	1.18704
We base on credit worthiness of our customers.	4.8	4.8	20.2	25.0	45.2	4.0119	1.13535
We define it as payment made on a loan that has been disbursed.	9.5	9.5	10.7	29.8	40.5	3.8214	1.31864
The bank's potential amounts of an installment payment vary if the loan itself has a variable interest rate.	1.2	1.2	35.7	47.6	14.3	3.7262	.76601
Our timely payment of installments can be applied to different loans	35.7	23.8	9.5	14.3	16.7	2.5238	1.50882
We send statements to our customers showing the number of installment payments remaining on the loan.	28.6	1.2	3.6	31.0	35.7	3.4405	1.65268
We always follow bank of Uganda's requirements.	6.0	0.0	0.0	50.0	44.0	4.2619	.95840

We receive timely installments from customers.	23.8	9.5	9.5	29.8	27.4	3.2738	1.54726
Our customers have sufficient funds to repay in installments.	0.0	23.8	45.2	26.2	4.8	3.1190	.82732
Our clients are satisfied with our timely installments policy.	36.9	11.9	3.6	31.0	16.7	2.7857	1.59873
Overall Mean and standard deviation						**3.4504**	**1.26793**
Rate of Arrears Recovery	**1**	**2**	**3**	**4**	**5**	**Mean**	**Std. Deviation**
The bank's arrear rate is manageable.	1.2	6.0	15.5	54.8	22.6	3.92	.85
The bank's arrear rate is always at industrial average.	2.4	4.8	15.5	46.4	31.0	3.98	.94
The bank's arrear rate is normal.	25.0	3.6	6.0	34.5	31.0	3.42	1.57
The bank's arrear rate is growing.	4.8	9.5	15.5	46.4	23.8	3.75	1.07
The bank's arrear rate percentage has been declining.	1.2	7.1	3.6	35.7	52.4	4.31	.93
The bank's arrear rate interest rate is very high.	4.8	7.1	15.5	39.3	33.3	3.8929	1.098
Overall Mean and standard deviation						**3.88**	**1.077**
Write- off	**1**	**2**	**3**	**4**	**5**	**Mean**	**Std. Deviation**
We directly contact the customers before write- off the loan.	3.6	**19.0**	21.4	34.5	21.4	3.51	1.14
The bank's write-off normally increases.	3.6	7.1	63.1	6.0	**20.2**	3.32	.99
The bank's write-off is manageable in the loan loss provisioning.	2.4	7.1	50.0	28.6	11..9	3.4	.87

We usually carry out write-off without informing customers..	3.6	19.0	21.4	34.5	**21.4**	3.5	1.13
When we are writing off a bad loan, we claim a tax deduction.	3.6	7.1	63.1	6.0	20.2	3.32	.99
The bank's write-off recoups loss through the deduction	2.4	7.1	50.0	28.6	11.9	3.40	.879
We consider it valuable to the bank and customers.	6.0	26.2	42.9	17.9	7.1	2.94	.99
Overall Mean and standard deviation						**3.35**	**1.00**
Portfolio at Risk	**1**	**2**	**3**	**4**	**5**	**Mean**	**Std. Deviation**
We always look at portfolio at risk as a risky loan.	15.5	10.7	4.8	27.4	41.7	3.69	1.49
We consider portfolio at risk after two late payments or more.	10.7	19.0	13.0	23.1	25.1	3.18	1.20
We consider portfolio at risk often after 30 days in arrears.	8.3	16.7	23.8	31.0	20.1	3.38	1.22
In portfolio at risk we do not include loans that have been restructured or rescheduled.	17.9	17.9	16.5	23.8	34.1	2.82	1.16
We measures portfolio at risk as a total outstanding balance of loans past due.	15.5	15.5	29.8	20.2	19.0	3.12	1.32
The bank's portfolio at risk is growing.	3.6	16.7	16.7	36.9	26.7	3.65	1.15
The bank's portfolio at risk is increasing.	20.2	11.9	31.0	16.7	20.2	3.05	1.39
The bank's portfolio at risk is normal.	2.4	3.6	15.5	38.1	40.5	4.1071	.95713
We can minimize portfolio at risk	7.1	20.2	6.0	45.2	21.4	3.5357	1.23646

in many ways.							
Overall Mean and standard deviation						**3.39286**	**1.23615**
Overall Mean and standard deviation for loan portfolio performance						**3.51734**	**0.89564**

Source: Primary data (2014)

Respondents agreed that there is timely payment of installments, though some respondents were not sure especially on the aspect of weather the bank faces challenges in timely payment of installment from the customers and weather the customers have sufficient funds to repay in installments. The respondents also agreed that the Bank's rate of arrears recovery is manageable, average and sometimes normal, though some arrears rate is growing sometime declines and sometimes the arrears are affected by high rates. The study shows that respondents also agreed on the most aspects under write -off, though most of them were not sure whether the bank's write-off normally increases and whether the bank's write-off recoups loss through the deduction as were as considering valuables to the bank and customers. Lastly, most of the respondents agreed on most aspects under Portfolio at Risk, though some were not sure on the measures portfolio at risk as a total outstanding balance of loans past due and whether bank's portfolio at risk is increasing. These aspects on loan portfolio performance resulted into an overall mean of 3.51734 which means that majority of the respondents agreed on all the aspects under consideration.

How to minimize portfolio at risk

The study was interested in finding out the ways the bank could use to minimize portfolio at risk both staff and customers of centenary bank basing on interviews and views from questionnaires of Centenary Bank staff and customers, reported that the bank should; Ensure proper appraisal, use of SMS to alert customers, personal visits, phone calls, the bank should also insisting on collateral security, facilitating loans officers, monitoring loans holder, giving out secured loans, training staff, leading on fixed deposits, salary loans should depend on employer payment, reminders strategies, timely disbursements of loans, the bank should base on credit worthiness of customers, loan recovery process to be improved, customers being illiterate, create a monitoring department, meeting financial obligations, effective use of CRB, customer care services, rescheduling loan dates in case a customer fails to pay in time, reduce interest rate and using character system.

Challenges to timely payment of installments

Also the researcher was interested in finding the bank face challenges in timely payment of installments basing on information from questionnaires and interviews which was administered and conducted by the researcher, both staff and customers of Centenary Bank reported that they anticipated challenges like; the bank force customers to Pay loan overdue on pressure, the staff informed the researcher that most customers do not comply in time, the staff has too much work at the bank, customers face income fluctuations, over financing clients, luck follow up action by the loans officers, the process is expensive, empty bank accounts, abs condiment, customer shifts from their promises, external forces, customers fund other businesses other than paying loans, business collapse, diversion of funds and that some customers withdraw all the money before the date of deduction.

Suggested solutions to the challenges of timely payment of installments

Basing on the interviews and questionnaires that were administered to the bank staff and customers they reported that the bank should always use reminders to keep in touch with customers, reward best customers, public a weakness programs on loans, create a system, facilitation on the side of staff, getting appropriate payment date, customers sensitization, encouraging customers to use ATMS in order to pay in installments, setting installments in time and good relationship with customers, encourage top up's and The bank should introduce a system that can hold and listening to clients problems.

4. 5 Empirical findings

This section describes whether there is a relationship between loan recovery practices and loan portfolio performance. A Pearson correlation coefficient and linear regression was used in this case.

4.5.1 Objective one: to examine the relationship between reminder strategies and loan portfolio performance of Centenary bank

In the virtual of understanding whether reminder strategies has a relationship with loan portfolio performance in centenary bank Entebbe road branch, a bivariate analysis and regression was

Table 4.11: Correlation between Reminder Strategies and loan portfolio performance

		Reminders strategies	Loan portfolio performance
Reminders strategies	Pearson Correlation	1	.798**
	Sig. (2-tailed)		.000
	N	84	84
Loan portfolio performance	Pearson Correlation	.798**	1
	Sig. (2-tailed)	.000	
	N	84	84

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

computed between two variables. Below are the results in table 4:11

Results in table 4:11 illustrate that there is a strong positive significant relationship between reminder strategies and loan portfolio performance (r=0.798; significant relationship of 0.000<0.01). If the relationship is predictive, it means that if reminder strategies increase, Loan Portfolio Performance will also increase and if reminders strategies decrease then loan portfolio performance will also decrease. However, there was a need to run simple regression analysis to confirm whether the relationship is predictive or not as illustrated in tables 4:12, 4:13 and 4:14.

Table 4.12: Reminder strategies and loan portfolio performance model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.798[a]	.637	.633	.53243

a. Predictors: (Constant), Reminders Strategies

b. predicted : loan portfolio performance

The adjusted R square value of 0.633 indicates that reminder strategies contribute 63.3 % in influencing loan portfolio performance. This also means that 36.7% of loan portfolio performance is influenced by other factors.

Table 4.13 Reminder strategies and Loan Portfolio Performance (ANOVA[b])

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	40.787	1	40.787	143.878	.000[a]
	Residual	23.245	82	.283		
	Total	64.032	83			

a. Predictors: (Constant), Reminders strategies
b. Predicted : Loan Portfolio Performance

The F value of 143.878 is significant (p value of 0.000 that is less than 0.05). Implying that reminder strategies influence loan portfolio performance

Table 4.14: Reminder strategies and loan portfolio performance Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	-2.540	.506		-5.020	.000
	Reminders Strategies	1.536	.128	.798	11.995	.000

a. Dependent Variable: Loan portfolio performance

The standardized Beta coefficient implies that one unit increase in loan portfolio performance is caused by 0.798 units increase in reminder strategies basing on the equation Y= βX + C, where Y = Loan portfolio performance (Dependent variable), X=Reminder strategies (independent variable), β = 0.798 and C is the constant. Therefore the equation is Loan portfolio performance = 0.798 Reminder strategies + Constant.

4.5.2 Objective two: relationship between Legal and Procedural Enforcement and loan portfolio performance Centenary Bank

In the virtual of understanding whether legal and procedural enforcement on loan portfolio, a bivariate analysis and regression was computed between two variables. As expressed in table 4:15

Table 4.15: Correlations of legal and procedural enforcement and loan portfolio performance

		Legal and Procedural Enforcement	Loan Portfolio Performance
Legal and Procedural Enforcement	Pearson Correlation	1	.986**
	Sig. (2-tailed)		.000
	N	84	84
Loan Portfolio Performance	Pearson Correlation	.986**	1
	Sig. (2-tailed)	.000	
	N	84	84
**. Correlation is significant at the 0.01 level (2-tailed).			

Results in table 4:15 illustrates that there is a very strong positive but significant associative relationship between legal and procedural enforcement and loan portfolio performance (r=0.986; significant relationship of 0.000<0.01). If the relationship is predictive, it means that if legal and procedural enforcement increase, loan portfolio performance will also increase and if legal and procedural enforcement decrease then loan portfolio performance will also decrease. However, there was a need to run simple regression analysis to confirm whether the relationship is predictive or not as illustrated in tables 4:16, 4:17 and 4:18 bellow

Table 4.2: Legal and Procedural Enforcement and loan portfolio performance model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.986[a]	.972	.971	.14863

a. Predictors: (Constant), Legal and procedural enforcement

b. predicted : Loan Portfolio Performance

The adjusted R square value of 0.971 indicates that Legal and procedural enforcement contribute 97.1 % in influencing loan portfolio performance in Centenary Bank – Entebbe road branch. This also means that 2.9% of loan portfolio performance is influenced by other factors.

Table 4.3: Legal and procedural enforcement and loan portfolio performance ANOVA[b)]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	62.221	1	62.221	2.817E3	.000[a]
	Residual	1.811	82	.022		
	Total	64.032	83			

a. Predictors: (Constant), Legal and procedural enforcement

b. predicted : Loan Portfolio Performance

The F value of 2.817E3 is significant (p value of 0.000 that is less than 0.05). Implying that legal and procedural enforcement influence loan portfolio

Table 4.4: Legal and procedural enforcement and loan portfolio performance coefficients

Model		Un standardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.478	.059		8.109	.000
	Legal and procedural enforcement	.802	.015	.986	53.072	.000

a. Dependent Variable: Loan portfolio performance

The standardized Beta coefficients imply that one unit increase in loan portfolio performance is caused by 0.986 units increase in Legal and procedural enforcement basing on the equation Y=

$\beta X + C$, where Y = Loan portfolio performance (Dependent variable), X=Legal and procedural enforcement (independent variable), $\beta = 0.986$ and C is the constant. Therefore the equation of Loan portfolio performance = 0.986 legal and procedural enforcement + Constant.

4.5.3 Objective three: to evaluate the relationship between loan monitoring and loan portfolio performance centenary bank.

In the virtual of understanding whether loan monitoring has a relationship with loan portfolio performance, a bivariate analysis and regression was computed between two variables. Below are the results in table 4:19

Table 4.19: Correlation between loan monitoring on loan portfolio performance

		Loan monitoring	Loan portfolio performance
Loan monitoring	Pearson Correlation	1	.984**
	Sig. (2-tailed)		.000
	N	84	84
Loan Portfolio Performance	Pearson Correlation	.984**	1
	Sig. (2-tailed)	.000	
	N	84	84

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

Results in table 4:19 clearly illustrate that there is a very strong positive but significant associative relationship between Loan Monitoring and Loan Portfolio Performance ($r=0.984$; significant relationship of $0.000<0.01$). If the relationship is predictive, it means that if Loan Monitoring increases, Loan Portfolio Performance will also increase and if Loan Monitoring decreases then loan portfolio performance will also decrease. However, there was a need to run simple regression analysis to confirm whether the relationship is predictive or not as illustrated in tables 4:20, 4:21 and 4:22 below

Table 4.20: Loan monitoring on loan portfolio performance model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.984[a]	.968	.968	.15734

a. Predictors: (Constant), Loan monitoring

b. Predicted : Loan Portfolio Performance

The adjusted R square value of 0.968 indicates that Loan Monitoring contributes 96.8% in influencing loan portfolio performance in Centenary Bank – Entebbe road branch. This also means that 3.2% of loan portfolio performance is influenced by other factors.

Table 4.215: Loan Monitoring and Loan Portfolio Performance ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	62.002	1	62.002	2.505E3	.000[a]
	Residual	2.030	82	.025		
	Total	64.032	83			

a. Predictors: (Constant), Loan monitoring

b. Predicted : loan portfolio performance

The F value of 2.505E3is significant (p value of 0.000 that is less than 0.05). Implying that Loan Monitoring influences Loan Portfolio Performance in Centenary Bank Entebbe road branch.

Table 4.22: Loan monitoring and loan portfolio performance coefficients

Model		Un standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.540	.061		8.791	.000
	Loan monitoring	.783	.016	.984	50.045	.000

a. Dependent Variable: loan portfolio performance

The standardized Beta coefficients imply that one unit increase in loan portfolio performance is caused by 0.984 units increase in Loan Monitoring basing on the equation $Y = \beta X + C$, where Y = Loan portfolio performance (Dependent variable), X=Loan Monitoring (independent variable), $\beta = 0.984$ and C is the constant. Therefore the equation of Loan portfolio performance = 0.984Loan Monitoring + Constant.

4.6 Multiple regression results of loan recovery practices and loan portfolio performance

In this section the research combined loan recovery practices of reminder strategies, legal and procedural enforcement and loan monitoring to evaluate their contribution to loan portfolio performance by caring out correlation and multiple regression analysis. Table 4:23 shows that results

Table 4.23: Multiple regression on loan recovery practices and loan portfolio performance.

Loan Recovery Practices		Reminder strategies, legal and procedural enforcement and loan monitoring	loan portfolio performance
Reminder strategies, legal and procedural enforcement and loan monitoring	Pearson correlation	1	.989**
	Sig. (2-tailed)		.000
	N	84	84
loan portfolio performance	Pearson correlation	.989**	1
	Sig. (2-tailed)	.000	
	N	84	84
**. Correlation is significant at the 0.01 level (2-tailed).			

Results in table 4:23 clearly illustrate that there is a very strong positive but significant associative relationship between loan recovery practices (reminder strategies, legal and procedural enforcement and loan monitoring) and loan portfolio performance (r=0.989; significant relationship of 0.000<0.01). If the relationship is predictive, it means an increase in Loan Recovery Practices will also increase loan portfolio performance and if loan recovery practices decreases then loan portfolio performance will also decrease. However, there was a need to run simple regression analysis to confirm whether the relationship is predictive or not as illustrated in tables 4:24, 4:25 and 4:26

Table 4.24: Loan Recovery Practices and Loan Portfolio Performance model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.989[a]	.978	.978	.13137

a. Predictors: (Constant), Reminder Strategies, Legal and procedural enforcement and loan monitoring

b. dependent variable: loan portfolio performance

The adjusted R square value of 0.978 indicates that loan recovery practices contribute 97.8% in influencing loan portfolio performance in centenary bank – Entebbe road branch. This also means that 2.2% of loan portfolio performance is influenced by other factors.

Table 4.6: Loan Recovery Practices and Loan Portfolio Performance ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	62.617	1	62.617	3.628E3	.000[a]
	Residual	1.415	82	.017		
	Total	64.032	83			

a. Predictors: (Constant), Reminder strategies, legal and procedural enforcement and loan monitoring

c. Dependent variable: loan portfolio performance

Table 4.7 Loan recovery practices and loan portfolio performance coefficients

Model		Un standardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	-.128	.062		-2.075	.041
	Reminder Strategies, Legal and Procedural Enforcement and Loan Monitoring	.951	.016	.989	60.235	.000

a. Dependent Variable: Loan Portfolio Performance

The standardized Beta coefficient imply that one unit increase in loan portfolio performance is caused by 0.989 units increase in loan recovery practices basing on the equation $Y= \beta X + C$, where Y = Loan portfolio performance (Dependent variable), X=Loan recovery practices (independent variable), $\beta = 0.989$ and C is the constant. Therefore the equation of loan recovery practices = 0.989 loan monitoring + constant.

4.7 Discussion

In this section the researcher discussed the findings in relation to the literature review to confirm whether the finding rhymes with the revealed literature.

4.7.1 Reminder strategies and loan portfolio performance

Rashid, et al, (2010) in agreement with Garry Kennedy et al, (2014), Marti. O (2007) and Owen et al (2014) contends that it is paramount for the bank to improve the understanding of both staff and clients on the importance of recovery of loans and how it's beneficial to all parties and if the bank uses Reminders strategies in form of short text (SMS), email or a simple telephone call, written communications and telephonic reminders, its loan portfolio performance could increase and in case the bank fail to do so its loan portfolio performance will decrease. this could also be in agreement with the findings to the study that if reminder strategies increase, loan portfolio performance will also increase and if reminders strategies decrease then loan portfolio performance will also decrease. This was supported by a strong positive but significant associative relationship between Reminder Strategies and Loan Portfolio Performance where by the coefficient was ($r=0.798$; significant relationship of $0.000<0.01$) as revealed by the findings.

4.7.2 Legal and procedural enforcement and loan portfolio performance

Mandar, (2010) presupposes that it is impotent to employ debt recovery agent to collect dues/receivables from specified debtors of the bank where as Yogesh & Sapkale, (2013) stated that the many banks face legal and procedural hurdles while recovering loans from defaulted customers and Ciele Edwards, (2014) says that many banks repossess securities/collateral of clients and Monica Steinisch, (2014) stated that many banks specify the security to repossess and not to repossess. From the study it was revealed that if legal and procedural enforcement increase, loan portfolio performance will also increase and if legal and procedural enforcement decrease then loan portfolio performance will also decrease as expressed with a very strong positive but significant associative relationship between the two.

4.7.3 Loan Monitoring and Loan Portfolio Performance

Rashid, Aloysius & Rogers, (2010 they also argued that, monitoring is paramount to be able to enable both clients and the bank not to be caught unaware. He emphasized on have monthly bank visits to clients, and respond to client concerns with urgency hence this will result in increase in loan portfolio and nonperforming loans whereas Cynthia, (2012) in agreement with Credit Union Magazine (2010) and Martin. O, (2007) stated that in order the bank to ensure the increase in its loan clear Loan Portfolio Performance, it should; monitoring have a loan portfolio framework/ policy, carryout loan portfolio audit, carryout regular loan monitoring, provide instant alerts and details on events that can affect loan or borrower status and carryout internal records to ensure effective loan monitoring. The findings in this study indicated a very strong positive but significant associative relationship between loan monitoring and loan portfolio performance with a coefficient of ($r=0.984$; significant relationship of $0.000<0.01$) which indicated that if loan monitoring increase, loan portfolio performance will also increase and if loan monitoring decreases then loan portfolio performance will also decrease.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter presents the summaries of the findings, discussions of objectives set for the study, conclusions derived from the findings, and the recommendations that will help centenary bank Entebbe road branch in slipping back loan portfolio performance based on the findings of the study.

5.0 Summary of major findings

The study was carried out in order to assess the relationship between loan recovery practices and loan portfolio performance of commercial banks in Uganda specifically it focused on centenary bank Entebbe road branch. Therefore at the end bellow is what was found out of each objective in summary.

5.0.1 Relationship between reminder strategies and loan portfolio performance

The first objective was based on the relationship between reminder strategies and loan portfolio performance. The study findings indicated that reminder strategies had significant influence on loan portfolio performance in centenary bank Entebbe road branch. This is because most of the statements that were introduced to respondents were indicated with a higher overall mean of 3.906725 among the statements which was rated higher included; We use written communication (4.071), We use We usually contact our customers in time before loan overdue notice (4.071) and those which were rated low included; we always use loan agencies to collect un outstanding loans (3.393).

This was supported by strong positive but significant associative relationship the two ($r=0.798$; significant relationship of $0.000<0.01$) with adjusted R square value of 0.633 which indicated that Reminder Strategies contribute 63.3 % in influencing loan portfolio performance in Centenary Bank – Entebbe road branch and 36.7% of loan portfolio performance is influenced by other factors. The F value of 143.878 was also revealed significant (p value of 0.000 that is less than 0.05), implying that reminder strategies influence loan portfolio performance in Centenary Bank Entebbe road branch and the equation of Loan portfolio performance was = 0.798 Reminder strategies + Constant.

5.0.2 Relationship between Legal and Procedural Enforcement and loan portfolio performance

The second objective of the study was based on the relationship between Legal and Procedural Enforcement and loan portfolio performance of centenary bank. The study findings indicated that legal and procedural enforcement had significant relationship with loan portfolio performance in centenary bank Entebbe road branch. This is because most of the statements that were introduced to respondents were indicated with a higher overall mean of 3.7821 and standard deviation of 0.989435 on the side of Legal and Procedural Enforcement also a mean 3.51734 and a standard deviation of 0.89564 on the side of loan portfolio performance supported the influence by agreeing.

Among the statements that were indicated with rated highly with a high mean included; We usually face legal and procedural hurdles while recovering loans from defaulted customers(4.012), we always repossess securities/collateral (4.333), We usually provide penalties for late payments (4.202), We always carryout realization of security before we provide a loan to customers (3.881), Repossession of security is done only after issuing demand notice (4.119) and those which was rated low included; We usually find loan defaulters obtaining stays from legal courts (2.845).

This agreement was supported by a very strong positive but significant associative relationship between the two variables and coefficient was ($r=0.986$; significant relationship of $0.000<0.01$) which means that if Legal and Procedural Enforcement increase, Loan Portfolio Performance will also increase and if Legal and Procedural Enforcement decrease then loan portfolio performance will also decrease. The adjusted R square value of 0.971 was also computed which indicates that Legal and procedural enforcement contribute 97.1 % in influencing loan portfolio performance in Centenary Bank – Entebbe road branch and the remaining 2.9% of loan portfolio performance is influenced by other factors. The F value of 2.817E3was also used to confirm whether the relationship is predictive or not and to confirm the significance (p value of 0.000 that is less than 0.05). Implying that Legal and procedural enforcement influence Loan Portfolio Performance in Centenary Bank Entebbe road branch. Therefore the equation of Loan portfolio performance was = 0.986 Legal and procedural enforcement + Constant.

5.0.3 Relationship between Loan Monitoring and loan portfolio performance

The third objective was based on the relationship between loan monitoring and loan portfolio performance of Centenary Bank. The study findings indicated that Loan Monitoring had significant relationship with loan portfolio performance in centenary bank Entebbe road branch. This is because most of the statements that were introduced to respondents were indicated with a higher overall mean of 3.7673636 and standard deviation of 1.162590 on the side of loan monitoring, 3.51734 overall mean and a standard deviation of 0.89564 on the side of loan portfolio performance supported the influence by agreeing.

Among the statements that were reported with the higher mean included; We always carryout loan portfolio audit (4.286), We always carry out internal records to ensure effective loan monitoring(4.071) and Remedies are available to overcome these challenges (4.036) whereas those which was rated low included; The bank's loan monitoring is carried out by different people (3.155).

This agreement was also supported with a very strong positive but significant associative relationship between the two variables and correlation coefficient was (r=0.984; significant relationship of 0.000<0.01) which indicates that if Loan Monitoring increase, Loan Portfolio Performance will also increase and if Loan Monitoring decreases then loan portfolio performance will also decrease. The adjusted R square value of 0.968 indicated that Loan Monitoring contribute 96.8% in influencing loan portfolio performance in Centenary Bank – Entebbe road branch and 3.2% of loan portfolio performance is influenced by other factors. The F value of 2.505E3was significant (p value of 0.000 that is less than 0.05). Implying that Loan Monitoring influence Loan Portfolio Performance in Centenary Bank Entebbe road branch. Therefore the equation of Loan portfolio performance as found = 0.984Loan Monitoring + Constant.

5.1 Conclusions

The general objective of the study focused on whether Loan Recovery Practices has a relationship with Loan Portfolio Performance of Commercial Banks in Uganda. The conclusion is loan recovery practices such as Reminders Strategies, Legal and Procedural Enforcement and Loan Monitoring really has a relationship with Loan Portfolio Performance as expressed in the findings above. However the problem wasn't solved, therefore this problem is caused by other factors such as long distance to customers, lack of facilitation, too much work load, wrong information about market stand, cost of operations, mobility, customer changing contacts, mobile businesses of customers, size of the portfolio, system overlaps, months that end on Sunday also affects the system, increase in number of customers, internet, time management, lack of enough experience staff, collapse of businesses, threats from the customers, un committed loans officers, poor cooperation, poor policy mechanisms and prolonged legal associates as it was expreesed in the interviews.

5.1.1 Reminder Strategies and Loan Portfolio Performance of Centenary Bank Entebbe road branch

The first researched question focused on whether Reminder Strategies has a relationship with Loan Portfolio Performance. The conclusion is Reminder Strategies has a relationship with Loan Portfolio Performance due to a strong positive but significant associative relationship, whereby an increase in reminder strategies will automatically lead to an increase in loan portfolio performance and the decrease in the use of Reminder Strategies will cause a significant decrease in loan portfolio performance. Therefore the researchers' research question one was answered and the objective one was achieved. However the problem is not caused by reminder strategies but other factors.

5.1.2 Legal and Procedural Enforcement and loan portfolio performance of Centenary Bank Entebbe road branch.

The second researched question focused on whether Legal and Procedural Enforcement has a relationship with loan portfolio performance of Centenary Bank. The conclusion is Legal and Procedural Enforcement has a relationship with Loan Portfolio Performance due to a very strong positive but significant associative relationship, whereby an increase in Legal and Procedural Enforcement will automatically lead to an increase in loan portfolio performance and the decrease in the use of Legal and Procedural Enforcement will cause a significant decrease in loan portfolio performance. Therefore the researchers' research question two was answered and the objective two was achieved. However other factors as expressed above contribute to problem.

5.1.3 Loan Monitoring and loan portfolio performance of Centenary Bank Entebbe road branch.

The third researched question focused on whether Loan Monitoring has a relationship with loan portfolio performance Centenary Bank. The conclusion: Loan Monitoring has a relationship with loan portfolio performance Centenary Bank due to a very strong positive but significant associative relationship, whereby an increase in Loan Monitoring will automatically lead to an increase in loan portfolio performance and the decrease in the use of Legal and Procedural Enforcement will cause a significant decrease in loan portfolio performance. Therefore the researchers' research question three was answered and the objective three was achieved. However other factors as expressed above contribute to problem.

5.2 Recommendations

5.2.1 Relationship between reminder strategies and loan portfolio performance of centenary bank

There is a need for centenary bank Entebbe road branch to closely watch the reminder strategies they use to remind customers over the loan overdue because it was reported consistently that some were not user friendly to customers and others were new to the customers like interactive voice response and dunning letters this will help to increase Loan Portfolio Performance.

The researcher also recommends that the bank should educate and sensitize customers and other users of the financial services on use of some reminder strategies because some of them were taking it for granted. This will clearly improve loan portfolio performance the bank.

The bank should also ensure that it closely follows-up, use constant reminders, recruiting recovery officers, adopting group recovery policy, facilitating the recovery process and the enforcement, create a department for follow up action and carrying out standard loan appraisal all these will help increase Loan Portfolio Performance.

5.2.2 Legal and Procedural Enforcement and loan portfolio performance of Centenary Bank Entebbe road branch.

The researcher recommends that centenary bank Entebbe road branch should sensitize customers on legal implication associated in case they fail to return back the loan. This is because it came out clearly from the study findings that many people who had obtained loans were fearfully of whether they will be able to return back the loan provided. Therefore to enforce this should relax on the requirements as per the creditworthiness of the customer, formulating a separate legal department, recovery department at each branch, shortening legal procedure carry out verification of collateral security properly. This will help the bank to improve on its loan portfolio performance.

5.2.3 Loan Monitoring and Loan Portfolio Performance of Centenary Bank Entebbe road branch

Also the researcher recommends that in order the bank to ensure Loan Portfolio Performance, in its loan monitoring program should employ more loans officers, training personnel to copy up with the changing technology and to put in place new monitoring systems, facilitating loans officers, make constant calls and customers contacts, reduce on loans officers workload to enable them get time to go to the field, involve LCs chair persons, use guarantors and ensure that the customer's businesses are registered

5.3 Contribution/ New knowledge created by the study.

The key contribution to the knowledge made by this study are: firstly, the study has been important in opening up new knowledge as to why most of customer found it difficult to comply with reminder strategies because some of them were new to them and to some bank staff and customers didn't know there relevance. It has been established in the study that using written communication, communication via appropriate medium, sending representatives use of loan due notices, using loan agencies to collect un outstanding money, use interactive voice response and dunning repossess has much to do with loan portfolio performance.

Secondly, on legal and procedural enforcement, it has been established in the study that repossession of securities/collateral penalizing customers, realization of security before the loan provision, Repossession of security after issuing the notice of demand encouraging customers to sale off the security, use of voluntary repossession of security when customers facing defaulting and specifying a security to repossess and not to repossess has much to do with loan portfolio performance.

Thirdly, on loan monitoring, it has been established in the study that if a bank have a clear loan monitoring framework/policy, carrying out loan Portfolio audit, monitoring loans physically, sending instant alerts and details on events that can affect our borrowing status, following the budget in monitoring loans, having enough expertise to monitor loans and internal records in loan monitoring. Loan portfolio performance will be a success.

5.5 Areas recommended for further research

Wholesomely the study tried to meet and achieve the set objectives as shown in the write-up, however, in the process the researcher has observed certain areas that requires further research.

1. The study was restricted to two variables; loan recovery practices and loan portfolio performance. There is therefore a need for further study to take into consideration the application of more than two variables that may be affecting loan portfolio performance in centenary bank Entebbe road branch because it may not only be loan recovery practice but also other factors like government policies and organizational policies, attitude and knowledge practices.

2. The study was also restricted to only three Loan recovery practices (Reminder Strategies, legal and procedural enforcement and loan monitoring). There is a need for future research to replicate the findings employing multidisciplinary measures of loan recovery practices and wider coverage of loan portfolio performance because it is likely that loan portfolio performance in centenary bank Entebbe road branch fair badly against such dimensions and indicators of loan portfolio performance.

3. The study was restricted to centenary bank Entebbe road branch. This makes the study limited to centenary bank Entebbe road branch and not in other commercial services in

Uganda. There is a need also for further study to be replicated in other areas to ascertain the similarity and differences in the findings.

4. The study was restricted to variables of loan recovery practices and loan portfolio performance. There is a need for further research to take into consideration of extraneous variables such as (insecurity, macro-economic factors and influence of Bank of Uganda), moderating variables such as (Loan policy, Quality of staff) and intervening variable such as (client ethical consideration) that may be otherwise affecting loan portfolio performance.

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APPENDIX I

QUESTIONNAIRE FOR CENTENARY BANK STAFF

Dear respondent,

The researcher is an MBA student of Kyambogo University Graduate School, conducting a research to generate data and information on ***"Relationship between Loan Recovery Practices and Loan Portfolio Performance of Commercial Banks in Uganda: A case of Centenary Bank Entebbe Road Branch.*** You are requested to participate in this study. The data you provide is for academic purposes only and will be treated with utmost confidentiality. Kindly spare some of your valuable time to answer these questions by giving your views where necessary or ticking/circling one of the alternatives given.

SECTION A: BACKGROUND INFORMATION

1. Gender

a) Male ☐ b) Female ☐

2. Position held in Centenary Bank

a) Banking Officers ☐ b) Branch Managers ☐ c) Loans Officers ☐

d) Credit administrators ☐) Customer service consultants ☐

f) others ....

3. Duration of service at centenary bank

a) Less than one year ☐ b) One year ☐ c) 2-5 years ☐ d) 6-10 years ☐

e) At least 11 years ☐

4. Highest qualifications obtained

a) Diploma ☐ b) Bachelor's degree ☐ c) Post graduate diploma ☐

d) Professional qualifications ☐e) Masters Degree ☐

f) others..............................

5. **Marital status**

a) Married ☐ b) Widowed ☐ c) Single ☐ d) Divorced ☐

e) Cohabiting ☐

f) Other ....

SECTION B: LOAN RECOVERY PRACTICES (INDEPENDENT VARIABLE)

In this section, please tick in the box that corresponds to your opinion/view according to a scale of 1=strongly disagree; 2=Disagree; 3=Not sure; 4=Agree; 5=strongly agree.

*I. **REMINDER STRATEGIES***

NO	Statements	1	2	3	4	5
	REMINDER STRATEGIES					
1.	We use written communication.					
2.	We use appropriate means when communicating with our customers.					
3	We usually send representatives to our customers.					
4.	We always give loan due notices to our customers.					
5.	We usually contact our customers in time before loan overdue notice.					
6.	We always use loan agencies to collect un outstanding money.					
7.	We also use interactive voice response.					
8	We usually send dunning letters to our customers.					

9. Which other reminder strategies do you use to remind customers on loan overdue?

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10. Do you face challenges in reminding customers?

Yes ☐ No ☐

11. If yes, what challenges?

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12. If no, why not?

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13. What are your suggestions to reduce on the challenges you face?

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.4. Is there a relationship between reminder strategies and write-off?

Yes ☐ No ☐

The responses are rated as: 1=strongly disagree*; 2=Disagree; 3=Not sure; 4=Agree; 5=strongly agree. Please tick the most appropriate response.*

II. LEGAL AND PROCEDURAL ENFORCEMENT

	Statements	1	2	3	4	5
	LEGAL AND PROCEDURAL ENFORCEMENT					
1.	We usually face legal and procedural hurdles while recovering loans from defaulted customers.					
2.	We usually find loan defaulters obtaining stays from legal courts.					
3.	We always repossess securities/collateral.					
4.	We usually provide penalties for late payments.					
5.	We always carryout realization of security before we provide a loan to customers.					
6.	Repossession of security is done only after issuing demand notice.					
7.	We recover all outstanding dues by encouraging customers sale the security to set better proceeds/ reputation					
8.	We always encourage customers to dispose off their property.					
9.	We always have an option for customers to call for voluntary repossession of security when facing defaulting.					
10.	We specify the security to repossess and not to repossess.					

11. What other legal and procedural enforcement do you use?

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12. Outline the challenges you face in carrying out legal and procedural enforcement of loan recovery.

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13. Suggest how you can overcome the challenges you face.

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14. Is there a relationship between legal and procedural enforcement and portfolio at risk?

Yes ☐ No ☐

III. LOAN MONITORING

*The responses are rated as: 1=*strongly disagree*; 2=Disagree; 3=Not sure; 4=Agree; 5=strongly agree. Please tick the most appropriate response.*

	Statements	**1**	**2**	**3**	**4**	**5**
	LOAN MONITORING					
1.	We have a clear loan monitoring framework/ policy.					
2.	We always carryout loan portfolio audit.					
3.	We always carryout regular loan monitoring.					
4.	We carryout loan monitoring even on loans which does not have					

	problems.					
5.	We also monitor loans physically.					
6.	The bank's loan monitoring is carried out by different people.					
4.	We provide instant alerts and details on events that can affect loan or borrower status.					
5.	We follow our budget when we are monitoring loans.					
6.	We have enough expertise to monitor loans.					
7.	We always carryout internal records to ensure effective loan monitoring.					
8.	We usually face challenges in loan monitoring.					
9.	Remedies are available to overcome these challenges.					

10. State the challenges the bank face in loan monitoring

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11. Suggest on how the bank can overcome those challenges.

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12. 14. Is there a relationship loan monitoring and timely payment of installments?

Yes ☐ No ☐

SECTION C: LOAN PORTFOLIO PERFORMANCE (DEPENDENT VARIABLE)

In this section, please tick in the box that corresponds to your opinion/view according to a scale of 1=strongly disagree; 2=Disagree; 3=Not sure; 4=Agree; 5=strongly agree.

NO	Statements	1	2	3	4	5
	Timely payment of installment					
1.	We always allow payments in installments.					
2.	The bank faces challenges in timely payment of installment from the customers.					
3.	The bank's timely payment of installment is negotiable.					
4.	We base on credit worthiness of our customers.					
5.	We define it as payment made on a loan that has been disbursed.					
6.	The bank's potential amounts of an installment payment vary if the loan itself has a variable interest rate.					
7.	Our timely payment of installments can be applied to different loans					
8.	We send statements to our customers showing the number of installment payments remaining on the loan.					
9.	We always follow bank of Uganda's requirements.					
10	We receive timely installments from customers.					
11.	Our customers have sufficient funds to repay in installments.					
12.	Our clients are satisfied with our timely installments policy.					

	Rate of arrears recovery	1	2	3	4	5
1.	The bank's arrear rate is manageable.					
2.	The bank's arrear rate is always at industrial average.					
3.	The bank's arrear rate is normal.					
4.	The bank's arrear rate is growing.					
5.	The bank's arrear rate percentage has been declining.					
6.	The bank's arrear rate interest rate is very high.					
	Write-off	**1**	**2**	**3**	**4**	**5**
1.	We directly contact the customers before write- off the loan.					
2.	The bank's write-off normally increases.					
3.	The bank's write-off is manageable within the loan loss provisioning.					
4.	We usually carry out write-off without informing customers.					
5.	When we are writing off a bad loan, we claim a tax deduction.					
6.	The bank's write-off recoups loss through the deduction rather than waiting for the clients to repay the amount.					
7.	We consider it valuable to the bank and customers.					
	Portfolio At Risk	**1**	**2**	**3**	**4**	**5**
1.	We always look at portfolio at risk as a risky loan.					
2.	We consider portfolio at risk after two late payments or more.					

3.	We consider portfolio at risk often after 30 days in arrears.					
4.	In portfolio at risk we do not include loans that have been restructured or rescheduled.					
5.	We measures portfolio at risk as a total outstanding balance of loans past due.					
6.	The bank's portfolio at risk is growing.					
7.	The bank's portfolio at risk is increasing.					
8.	The bank's portfolio at risk is normal.					
9.	We can minimize portfolio at risk in many ways.					

10. How should you minimize portfolio at risk.

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11. Suggest the challenge you face in timely payment of installment from the customers.

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12. Suggest how the bank can overcome the challenges mentioned above?

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THANK YOU

APPENDIX II

QUESTIONNAIRE FOR CENTENARY BANK CUSTOMERS

Dear respondent,

The researcher is an MBA student of Kyambogo University Graduate School, conducting a research to generate data and information on ***"Relationship between Loan Recovery Practices and Loan Portfolio Performance of Commercial Banks in Uganda: A case of Centenary Bank Entebbe Road Branch.*** You are requested to participate in this study. The data you provide is for academic purposes only and will be treated with utmost confidentiality. Kindly spare some of your valuable time to answer these questions by giving your views where necessary or ticking/circling one of the alternatives given.

SECTION A: BACKGROUND INFORMATION

6. **Gender**

b) Male ☐ b) Female ☐

7. **Duration of service at centenary bank**

b) Less than one year ☐ b) One year ☐ c) 2-5 years ☐ d) 6-10 years ☐

e) At least 11 years ☐

8. **Highest qualifications obtained**

b) Diploma ☐ b) Bachelor's degree ☐) Post graduate diploma ☐

d) Professional qualifications e) ☐asters Degree ☐

f) others.........................

9. **Marital status**

a) Married ☐ b) Widowed ☐b) Single ☐ c) Divorced ☐Cohabiting ☐

e) Other ....

SECTION B: LOAN RECOVERY PRACTICES (INDEPENDENT VARIABLE)

In this section, please tick in the box that corresponds to your opinion/view according to a scale of 1=strongly disagree; 2=Disagree; 3=Not sure; 4=Agree; 5=strongly agree.

I. REMINDER STRATEGIES

NO	Statements	1	2	3	4	5
	REMINDER STRATEGIES					
1.	We usually receive written communication from the bank.					
2.	We always receive communication via appropriate medium from bank.					
3	We usually get representatives from the bank.					
4.	The bank usually provide loan due notices to us.					
5.	The bank regularly contacts us in time before the loan overdue notice.					
6.	We all the time receive loan agencies to collect un outstanding money.					
7.	The bank also uses interactive voice response as means of communication to us.					
8	We always receive dunning letters from the bank.					

9. What other reminder strategies does the bank use?

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10. Do you face challenges in reminding you by the bank?

Yes ☐ No ☐

11. If yes, what challenges?

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12. If no, why not?

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13. What are your suggestions to reduce on the challenges you face?

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II. LEGAL AND PROCEDURAL ENFORCEMENT

*The responses are rated as: 1=*strongly disagree*; 2=Disagree; 3=Not sure; 4=Agree; 5=strongly agree. Please tick the most appropriate response.*

	Statements	**1**	**2**	**3**	**4**	**5**
	Legal huddles, repossession of a security and demand notice					
1.	The bank face legal and procedural hurdles while recovering loans from us.					
2.	We usually obtain stays from courts.					
3.	The bank always repossess our securities/collateral					
4.	The bank always penalizes us for late payment.					
5.	The bank doesn't carry out realization of security before the loan					

	provision.					
6.	Repossession of security is done only after issuing the notice of demand to us.					
7.	The bank recover all outstanding dues by encouraging us sale the security to set better proceeds/ reputation					
8.	The bank always encourages us to dispose of our property.					
9.	We always call for voluntary repossession of security when facing defaulting.					
10.	The bank specifies the security to repossess and not to repossess.					

11. What other legal and procedural enforcement does the bank use?

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12. Outline the challenges you face when the bank carrying out legal and procedure enforcement.

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13. Suggest how you can overcome the challenges you face.

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III. LOAN MONITORING

*The responses are rated as: 1=*strongly disagree*; 2=Disagree; 3=Not sure; 4=Agree; 5=strongly agree. Please tick the most appropriate response.*

	Statements	1	2	3	4	5
	LOAN MONITORING					
1.	The bank have a clear loan monitoring framework/policy					
2.	The Bank carries out loan Portfolio audit.					
3.	The bank always carryout regular loan monitoring.					
4.	The bank usually monitors even loans which does not have problems.					
5.	The bank monitors loans physically.					
6.	The bank carryout loan monitoring by using different people.					
7.	We usually get instant alerts and details on events that can affect our borrowing status.					
8.	The bank follow it's the budget in monitoring loans.					
9.	The bank has enough expertise to monitor loans.					
10.	The bank always carryout internal records in loan monitoring.					
11.	The bank faces challenges in monitoring loans.					
12.	Remedies are available for the bank overcome the challenges in loan monitoring					

13. State the challenges the bank face in loan monitoring

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14. Suggest on how the bank can overcome those challenges.

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SECTION C: LOAN PORTFOLIO PERFORMANCE (DEPENDENT VARIABLE)

In this section, please tick in the box that corresponds to your opinion/view according to a scale of 1=strongly disagree; 2=Disagree; 3=Not sure; 4=Agree; 5=strongly agree.

NO	Statements	1	2	3	4	5
	Timely payment of installment					
1.	The bank always allow us to pay in installments					
2.	The bank faces challenges in timely payment of installments from us.					
3.	The bank's timely payment of installment is negotiable					
4.	The bank base on our credit worthiness to state the percentage timely installment.					
5.	The bank define timely payment of installments as payment made on a loan that has been disbursed					
6.	The bank's potential amounts of an installment payment vary if the loan itself has a variable interest rate.					
7.	The bank's timely payment of installments can be applied to different loans					
8.	We often receive statements from the bank on the number of installment payments remaining on the loan.					

9.	The bank always follows Bank of Uganda's requirements in instrument payment process.					
10	The bank always receives timely installments from us.					
11.	We have sufficient funds to repay in installments.					
12.	We are satisfied with the bank's timely installments policy.					
	Rate of arrears recovery	**1**	**2**	**3**	**4**	**5**
1.	The bank's arrear rate is manageable.					
2.	The bank's arrear rate is always at industrial average.					
3.	The bank's arrear rate is normal.					
4.	The bank's arrear rate is growing.					
5.	The percentage arrear rate of the bank has been declining.					
6.	The bank's interest rate is very high.					
	Write-off	**1**	**2**	**3**	**4**	**5**
1.	The bank directly contacts us before write- off the loan.					
2.	The bank's write-off normally increases.					
3.	The bank's write-off is manageable within the loan loss provisioning					
4.	The bank usually write-off loan without informing us.					
5.	The bank claim a tax deduction when write off a bad loan.					
6.	The bank considers write-off valuable.					
7.	Write -off allows the bank to recoup loss through the deduction					

		1	2	3	4	5
	rather than waiting for us to repay the amount.					
	Portfolio At Risk	**1**	**2**	**3**	**4**	**5**
1.	The bank always looks at portfolio at risk as a risky loan.					
2.	The bank's portfolio at risk is defined with two late payments or more.					
3.	The bank consider portfolio at risk often after 30 days in arrears.					
4.	The bank does not include loans that have been restructured or rescheduled.					
5.	The bank measure portfolio at risk as a total outstanding balance of loans past due.					
6.	The bank's portfolio at risk is growing.					
7.	The bank's portfolio at risk is increasing.					
8.	The bank's portfolio at risk is normal.					
9.	The bank can minimize portfolio at risk in many ways.					

10. How do the bank minimize portfolio at risk.

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11. Suggest the challenge you face in timely payment of installments.

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12. Suggest how the bank can overcome the challenges mentioned above?

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THANK YOU

APPENDIX III:

TABLE FOR DETERMINING SAMPLE SIZE FROM A GIVEN POPULATION

N	*S*	*N*	*S*	*N*	*S*
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341
80	66	420	201	3500	346
85	70	440	205	4000	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375

N	*S*	*N*	*S*	*N*	*S*
160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	285	1000000	384

Source: *Krejcie & Morgan (1970, as cited by Amin, 2005).*

Note:

N is population size.

S is sample size.

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Office of the Dean Graduate School

Wednesday 27th August, 2014.

To whom it may concern

RE: LETTER OF INTRODUCTION

This is to introduce **Mr. Kyobe Godfrey** Registration number **12/U/HD/281/GMBA/PE** who is a student of Kyambogo University pursuing a Masters Degree in Business Administration.

He intends to carry out a research on: **Effect of Loan Recovery Practices and Loan Portfolio Performance of Commercial Banks in Uganda – A Case Study of Centenary Bank, Entebbe Road Branch.**

As partial fulfillment of the requirements for the award of the Degree in Master of Business Administration.

We therefore kindly request you to grant him permission to carry out this study in your Organization.

Any assistance accorded to him shall be highly appreciated.

Thank you.

Yours faithfully,

Dr. M. A. Byaruhanga Kadoodooba
Dean, Graduate School

KYAMBOGO UNIVERSITY
27 AUG 2014
OFFICE OF THE DEAN
GRADUATE SCHOOL

APPENDIX V

INTERVIEW SCHEDULE FOR CENTENARY BANK STAFF AND CLIENTS

1. Position...

2. Department/section..

A: Reminder Strategies and Loan Portfolio Performance (Please tick the appropriate option probably in all cases of reminder strategies)

3a) what are the most significant reminder strategies employed by centenary bank?

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b) How does the reminder strategy improved loan portfolio performance?

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B: Legal and Procedural Enforcement and Loan Portfolio Performance (Please tick the appropriate option probably in all cases of legal and procedural enforcement)

4a) In your views, state the extent to which legal and procedural enforcement effect loan portfolio performance of centenary bank?

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b) Clearly state whether the Bank face legal and procedural hurdles while recovering their dues.

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C: Loan Monitoring and Loan Portfolio Performance (Please tick the appropriate option probably in all cases of legal and procedural enforcement)

5a) How does the bank monitor its loan overdue?

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b) How would you describe the general loan portfolio performance of centenary bank and the challenges it faces?

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