INTEREST RATES AND LOAN PERFORMANCE IN BRAC UGANDA BUDUDA BRANCH

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ABSTRACT

The study assessed the influence of interest rates on loan performance in Brac Uganda, Bududa Branch. The objectives of the study included: examining the influence of fixed interest rate on loan performance, finding out the effect of annual percentage rate on loan performance, and establishing the relationship between the prime rate and loan performance. To arrive at empirical results, the methodology used both qualitative and quantitative techniques, thus triangulation, to arrive at the level of loan performance in particular. A descriptive research design guided and informed the study. The research was carried out using mainly questionnaires. A sample of 278 respondents was arrived at based on Krejcie and Morgan's (1970) Sampling Frame out of the 1,001 targeted participants. The findings of this study were analyzed using SPSS v 20, and a regression was used to establish the relationships between interest rates and loan performance. The rigorous process of interpretation of data was simultaneously carried out, a process that enabled the study to answer the research questions. Study findings revealed that fixed interest rate positively influenced loan performance (β = .625), annual payment percentage significantly affected loan performance (β = .32.1), and the prime rate had a positive significant relationship with loan performance (β = .344). Therefore, as measures to improve loan performance at Brac, the researcher recommended that before loans are disbursed, there should be proper assessment and appraisal and the bank should uphold the continuous monitoring and evaluation of clients‘ businesses that have subscribed to the fixed interest loans. The study further recommended advising and providing information to clients on trending business practices on the market, which will help them meet their repayment needs. The bank should avoid over-financing prime rate borrowers because prime rate borrowers may seem safer due to their loyalty and yet in an actual sense, they sometimes take too long to clear their huge loans or fail. Finally and most importantly, the bank should institute electronic financial cards to track the loan statuses and the performance of clients and also, put in place independent community loan assessment teams. Further research can be done on the relationship between fixed interest rates and loan recovery; the factors affecting loan recovery in rural communities; and the role of prime interest rates on the timely recovery of loans.

Key words: Interest rates, fixed interest rates, annual percentage rate, prime rate, and loan performance

DECLARATION

I Wanale Norah Nabudo do declare that this piece of work is original, out of my effort, except where due acknowledgment has been made, and it has not been published or presented in any institution of higher learning for any award.

Signature:  Date: 7TH OCTOBER, 2024

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APPROVAL

This is to certify that this research thesis was done by Wanale Norah Nabudo under my supervision and is now ready for submission with my approval as the University Supervisor.

Signature:  Date: 7TH,

OCTOBER 2024Supervisor‘s Name: Mr Masuba Martin

DEDICATION

I dedicate this research thesis to my family especially my parents the late Mr. Nabudo Magidu, my mother Ms. Kanene Sarah, my son Nabudo Evans Genesis, relative and friends who stood by me patiently during the whole process both in prayers and needed resources.

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I thank the Almighty God for making it possible for me to complete this piece of work. Special thanks go to my supervisor; Mr. Masuba Martin for the guidance he accorded me during this exercise.

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TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

LIST OF ABBREVIATIONS

ACCA	-	Association of Chartered Certified Accountants
APR	-	Annual Percentage Rate
ASA	-	American Student Assistance
BNZ	-	Bank of New Zealand
BoU	-	Bank of Uganda
BRAC	-	Bangladesh Rural Advancement Committee
CBRC	-	China Banking Regulatory Commission
CFI	-	Corporate Finance Institute
CVI	-	Content Validity Index
EAPR	-	Effective Annual Percentage Rate
ELR	-	Expected Loss Ratio
LTV	-	Loan-to-Value Ratio
NPL	-	Non-Performing Loan
SIR	-	Simple Interest Rate
SMEs	-	Small and Medium-sized Enterprises
SPSS	-	Statistical Package for Social Sciences
SRS	-	Simple Random Sampling
TPR	-	The Prime Rate

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter provides the conceptual aspects of the thesis that assess interest rates and loan performance, a case study of BRAC Uganda - Bududa Branch. These aspects include the background to the study, problem statement, objectives, scope, significance, and the conceptual framework of the study. This study focused on the relationship of two variables: Interest rate was the independent variable, while loan performance dependent variable.

1.1 Background to the study

Since the inception of human society and civilization, lending and borrowing have proved to be an essential constituent of the development of societies. Tens of millions of people in more than 100 nations have access to official and informal lending institutions' services by the beginning of the twenty-first century (Worldbank, 2013). Even though, from a global perspective, banks have had to deal with the challenge of credit risk management and the fallout from the credit crisis, which had its roots in the collapse of the housing bubble and the high rate of sub-prime mortgage defaults in the United States, a situation brought on by a high appetite for credit and lax credit controls that led to Lehman Brothers' collapse and the fire-sale sales of Merrill Lynch and Bear Stearns (The Economist, 2009). The Bangladesh Rural Advancement Committee (BRAC) and the Grameen Bank have payouts of over US$4.7 billion and US$2.2 billion, respectively (Hulme and Arun, 2009).

According to Nguyen (2014), the weight of non-performing loans (NPLs) has hindered Viet Nam's reform efforts and prevented the country's economy from growing further. The true scope of China's banking system's non-performing loan (NPL) crisis continues to draw a lot of attention. Most estimates from a few years ago pegged the NPL level in the Chinese system—both those that had been removed and those that were still in place—at about 40% of all loans that were outstanding in the late 2000s.

NPLs at the four largest state-owned banks (the big four banks), according to recent figures from the China Banking Regulatory Commission (CBRC), were just under 10% in the first quarter of 2011. In less than ten years, that seems to be a big improvement. NPLs at the main four banks, however, may still be as high as 30%, according to a May 2012 assessment by Ernst & Young that was quickly removed after receiving harsh criticism from the Peoples Bank of China (Ma& Fung, 2012). In emerging nations, interest rates have been liberalized by letting market forces set them, according a research by Mwangi (2014). Thus, uncompetitive banking systems, weak regulatory frameworks, and rate-insensitive borrowers reduce the effectiveness of market-based credit allocation and interfere with the flow of monetary signals, both of which have a negative impact on macroeconomic policy. A company's profitability in relation to its total assets may be determined by looking at its loan performance. Return on Asset is used to measure it (Irungu, 2013).

The ACCA's (2003) bulletin explains interest rate as a measure of the cost of borrowing. In addition, Crowley (2007) defined interest rate as the price or cost a borrower pays to use the money they borrow from a lender or financial organization. According to Fisher (1930), the interest rate serves as both the cost of money and the connection between

income and capital. According to Lloyd (2006) and McConnell (2009), interest rates represent a percentage-based cost associated with borrowing money. Interest rates are among the most important factors in the macroeconomic realm of finance, according to Lloyd (2006). According to Gardner and Cooperman's (2005) research, interest rates accurately reflect the cost of borrowing money for a specific time period. Certain that borrowing is a key source of funding for businesses, the interest rate is crucial to them since it has a substantial impact on their revenue and, consequently, their operations, according to Keynes (1936), it reflects the cost of borrowing capital for a given period.

Therefore, in this research, bank interest rates represent the compensation that lenders (banks) anticipate receiving from borrowers for the time that they use borrowed funds. It represents the time value of money for the money given to borrowers over a certain time period. The interest rate is further sub-divided by Banton (2020) into Simple Interest Rate (SIR) and Compound Interest Rate (CIR). He further asserts that the interest rate charged by banks is determined by many factors, such as the state of the economy. O‘Connell (2019) adds on what Banton fronts as to interest rate consisting of; Fixed Interest, Variable Interest, Annual Percentage Rate (APR), The Prime Rate, and The Discount Rate. This study associates itself with the Fixed Interest (simple interest), Annual Percentage Rate (APR), which is more so the same as compound interest, and The Prime Rate (TPR).

To banks, the annual percentage rate (APR), which is frequently used by O'Connell, represents the total amount of yearly interest charged on the loan. He claims that when customers agree to carry a balance on their credit card accounts, credit card firms frequently utilize APR to establish interest rates. The margin that the bank or lender

charges the customer is added to the prime rate to compute the annual percentage rate (APR). The annual percentage rate is the outcome. The most popular type of interest for customers is simple interest (fixed rate), which is simple to calculate, simple to comprehend, and steady - both the borrower and the lender are aware of the precise interest rate responsibilities associated with a loan or credit account. The prime rate is the interest that banks frequently provide preferred clients who need loans since it is typically less expensive than the standard interest rate provided to customers. The prime rate is frequently used by financial lending organizations for interbank lending.

Loan performance has been defined as a measurement of an existing portfolio of facilities leased out to ascertain if the borrowers are repaying as required by the contract conditions with the bank (Cooperman, 2005). The status of loan repayment within the specified period is known as loan performance (Greenidge and Grosvenor, 2010).

Taylor (2019) lists the following as some of the several loan performance metrics; full repayments; provisions, which are sums set aside by lenders to cover potential future losses on outstanding assets; If a borrower has neglected to make one or more required loan payments, they are said to be in arrears. If the lender obtains ownership of the asset it is secured against, it is deemed to be in possession. When a loan is deemed uncollectible, the loan amount is subtracted from the company's reported assets and is known as a write-off. The results of this study are consistent with the mentioned indicators, which show various stages of the loan/asset cycle (Bank of England, 2019).

In this study, Fisher‘s theory of interest rates was considered in the context of interest rates and loan performance. Irving Fisher first fronted the Fisher's theory in 1930, but several thinkers and academics have subsequently advanced and challenged it (Harrod,

1971; Fisher, 1974; Tymoigne, 2006). The theory's justification is based on the idea that people rush to spend money as soon as they have the chance. According to the statement, the nature of capital and revenue was primarily intended to act as a foundation for the interest rate that came next. The rate of interest is said to be the relationship between income and capital. In other words, according to the idea, interest rates are expressed as a percentage of the premium paid on money at a certain time expressed in terms of money that will be paid one year from that date. Theoretically, it is asserted that products other than money can serve as a substitute for money. The aforementioned justification for the term "money market," which refers to the market where current and future money are exchanged for a price or premium, validates the fact that, in practice, only money is transferred between the present and the future (Tymoigne, 2006).

According to some, the inflation targeting framework is not complete without Fisher's real rate of interest framework. This is because it justifies the idea that monetary policy should primarily focus on controlling inflation expectations in order to maintain interest rates at a level that encourages saving and investment (Montes, 2010; Vredin, 2015). Fisher's theory might be used to explain how the impact of inflation risk premium as an element of interest rates on the financial performance of loans, together with interest rates and MFIs' loan performance.

In relation to interest rates and loan performance, policymakers and bankers have long been concerned about the possible effects of interest rates on commercial banks' financial performance, particularly on loan recovery (Robinson, 1995; Maigua & Mouni, 2016; Wangari, 2017). Unexpected fluctuations in interest rates thus have an impact on the revenues of banks and, by extension, microfinance companies. The coexistence of

legitimate and unofficial financial markets is a distinctive feature of Uganda's financial system. Commercial banks, development banks, and credit institutions make up the majority of the formal financial markets, which are concentrated in metropolitan regions and provide a limited selection of financial services. These banks generally focus on providing working cash to large- and medium-sized businesses (Iwumbwe, 2015).

According to the Bank of Ghana's categorization, a loan is current if the principle and interest payments are current. Further, it states that an overdraft is categorized as current or performing if there are consistent actions (swing) in the account and no indication of a significant debt accumulation (Bank of Ghana, 2008). Therefore, it follows that loans that have been current with their principle and interest payments are referred to as performing loans and they make up a sound asset portfolio.

Ddumba (2011) claims that banks have seized the opportunity to raise their prime lending rates ever since the Bank of Uganda boosted the Central Bank Rate from a startling 13% in 2010 to an astounding 23% in 2011. Stanbic Bank upped its lending rate to 34%, Centenary Bank from 19% to 23%, DFCU Bank from 23% to 27%, Standard Chartered from 18% to 34%, Barclays Bank from 17.5% to 30%, and KCB from 18% to 28%, according to information only available to Business Sense. In Uganda, the ambitious poor, not the poorest of the poor, can access a complete range of financial services, including savings, credit, and money transfers, through Brac, a former microfinance firm that is now a bank.

Recent trends on loan performance in Ugandan banking institutions highlight an evolving landscape influenced by economic dynamics, regulatory reforms, and borrower behavior. According to Asongu, Nwachukwu, and Tchamyou (2019), non-performing loans (NPLs)

have been fluctuating, with economic downturns exacerbating default rates. The Uganda Bankers Association (UBA) has also noted increased loan delinquencies, particularly among small- and medium-sized enterprises (SMEs), driven by macroeconomic instability (Muwanga, 2020). Kasekende and Atingi-Ego (2019) found that banking institutions have adjusted their credit policies to mitigate risks, tightening lending criteria and shifting towards more collateral-based lending. Consequently, the ratio of NPLs to gross loans has ranged between 4-6% in recent years (Bank of Uganda, 2021). This trend is significantly influenced by government monetary policies, especially interest rate adjustments that affect repayment capacity (Ngugi & Karodia, 2017).

Additionally, the introduction of digital financial services and mobile lending platforms has diversified loan access and affected repayment performance (Mutebile, 2020). Financial technology solutions have simplified access to credit, although they present challenges in credit risk management. Mugume (2021) emphasizes that while digital loans have enabled faster access to credit, the lack of robust credit assessments has led to higher default rates in this segment. Moreover, sector-specific trends show that agriculture and manufacturing face higher loan performance risks due to volatile market conditions and climate change impacts (Nanyondo & Turyakira, 2018). These trends call for enhanced regulatory oversight and tailored risk management strategies within the Ugandan banking sector (Kaggwa, 2021).

With approximately 420,000 clients and over 50,000 debtors, Brac Micro Financial Institution was one of the biggest Micro Finance Institutions that later became banks (The New Vision, 2004:4). The goal of the bank is to deliver suitable financial services to all Ugandans, especially those who live in rural regions, in a way that is sustainable and

compliant with the law. The bank was founded with the primary goal of providing financial services to all Ugandans with a special focus on the rural poor. Since then, it has quickly expanded into a fully-fledged commercial bank and has expanded its operations into the commercial and corporate sectors in addition to offering microloans to the rural poor.

1.2 Statement of the problem

For banks, loans and client deposits on which they pay fees are the major sources of income. Usually, the greatest asset and main source of income is the loan portfolio. The stakeholders get quite concerned when banks don't reach their goals for these two revenue categories. The Independent Magazine, published May 4, 2014, said that the underwhelming performance of the banking sector was one of the reasons for the Uganda Revenue Authority's UGX. 270 billion revenue deficits for the time period up to January 2013. This is because commercial banks were writing down billion in bad debts, which had a significant negative impact on their profitability. The banks also recorded deficits as a result of the drop in demand for new loans and the rise in current loan default rates. Muhumuza (2014) postulates that Brac Uganda has reasonably strong growth in its balance sheets, but has not achieved high levels of profitability, partly because of its social mission.

In 2017, Brac's financial results show that the lender recorded a 20% decline in net profit to Shs17.2bn due to increased operational expenditure and non-performing loans. The provision of bad and doubtful debts was Shs3.4bn in 2018 (Khisa, 2019). Banks may set a favorable lending rate compared to others to remain competitive and ensure lower loan default rates (Chen, 2019). With this in place at Brac, the institution still faced poor

payments of its loan portfolio just as other lending banks do in Uganda, as noted in the Credit reference Bureau Report 2019. Notwithstanding, Ugandan banks recorded Shs685b in non-performing loans (Chopra, 2020). It is upon this bad trend of loan default that the researcher sought to assess the influence of interest rates on loan performance in Brac Uganda, Bududa Branch.

1.3 General objective

The study set out to assess the influence of interest rates on loan performance in Brac Uganda, Bududa Branch.

1.4 Specific objectives of the study

i. To examine the influence of fixed interest rates on loan performance in Brac Uganda, Bududa Branch.
ii. To find out the effect of the annual percentage rate on loan performance in Brac Uganda, Bududa Branch.
iii. To establish the relationship between the prime rate and loan performance in Brac Uganda, Bududa Branch.

1.5 Research questions

i. To what extent does fixed interest rate influence loan performance in Brac Uganda, Bududa Branch?
ii. What is the effect of the annual percentage rate on loan performance in Brac Uganda, Bududa Branch?
iii. Is there a relationship between the prime rate and loan performance in Brac Uganda, Bududa Branch?

1.6 Scope of the study

1.6.1 Content scope

This study focuses specifically on the relationship between interest rates as an independent variable and their influence on loan performance as the dependent variable at BRAC Uganda's Bududa branch. By examining the mechanisms through which interest rates influence loan performance, the study aims to provide a comprehensive understanding of how these factors interplay within the context of microfinance in Uganda.

1.6.2 Geographical scope

The research was conducted at the BRAC Bududa branch, located in Bududa District, Eastern Uganda. This site was chosen due to the unique challenges faced by borrowers in the region related to interest rates and loan performance. The geographical focus allows for a detailed analysis of local economic conditions, lending practices, and borrower experiences, which are crucial for understanding the broader implications of interest rates on loan performance.

1.6.3 Time scope

The study examines data over a three-year period, from 2017 to 2019. This timeframe was selected to ensure a realistic and manageable analysis of interest rates and loan performance, allowing the researcher to capture trends and variations within a specified period. The choice of three years strikes a balance between obtaining sufficient data to support the analysis and the feasibility of conducting the study within the available resources. This timeframe enables a focused examination of the immediate impacts of interest rates on loan performance without extending beyond practical limits.

1.7 Significance of the study

The results of this study should be useful to a range of social strata. In order to enhance its internal control system and design, Brac's management may be able to detect possible risks arising from the banks' current lending rates and their influence on loan portfolio performance with the use of the study's findings. By predicting and regulating exposure to different recognized markets, clients, and operating situations, this may balance and contain total loan portfolio risk. By giving academics and professionals a better knowledge of the function of credit management in reducing credit risk to prevent losses in commercial banks, the study's findings may also be of practical value to both academicians and general practitioners.

The results could potentially contribute to the body of information housed in university libraries and serve as a springboard for additional study in related fields. The study's results may also put workers in a better position to follow policy and procedure for managing their loan portfolios, avoiding fraud, defaults, and other errors that might otherwise cost the bank money. Furthermore, the results can encourage Brac customers to behave responsibly and adhere to borrowing agreements by submitting genuine documentation and completing payments on time in order to lessen the bank's losses from loan defaulters.

1.8 Conceptual framework

According to Camp (2001), the conceptual framework establishes a relationship between variables in a study and illustrates that relationship graphically and diagrammatically. Liehr and Smith (1999) defined the conceptual framework as a structure that the researcher believes can best explain the natural progression of the phenomenon to be

studied (Mugenda, 2008). The purpose is to aid the representation of the proposed relationship of concepts. Therefore, the assumed relationship between interest rates and loan performance is illustrated in figure 1.1 below:

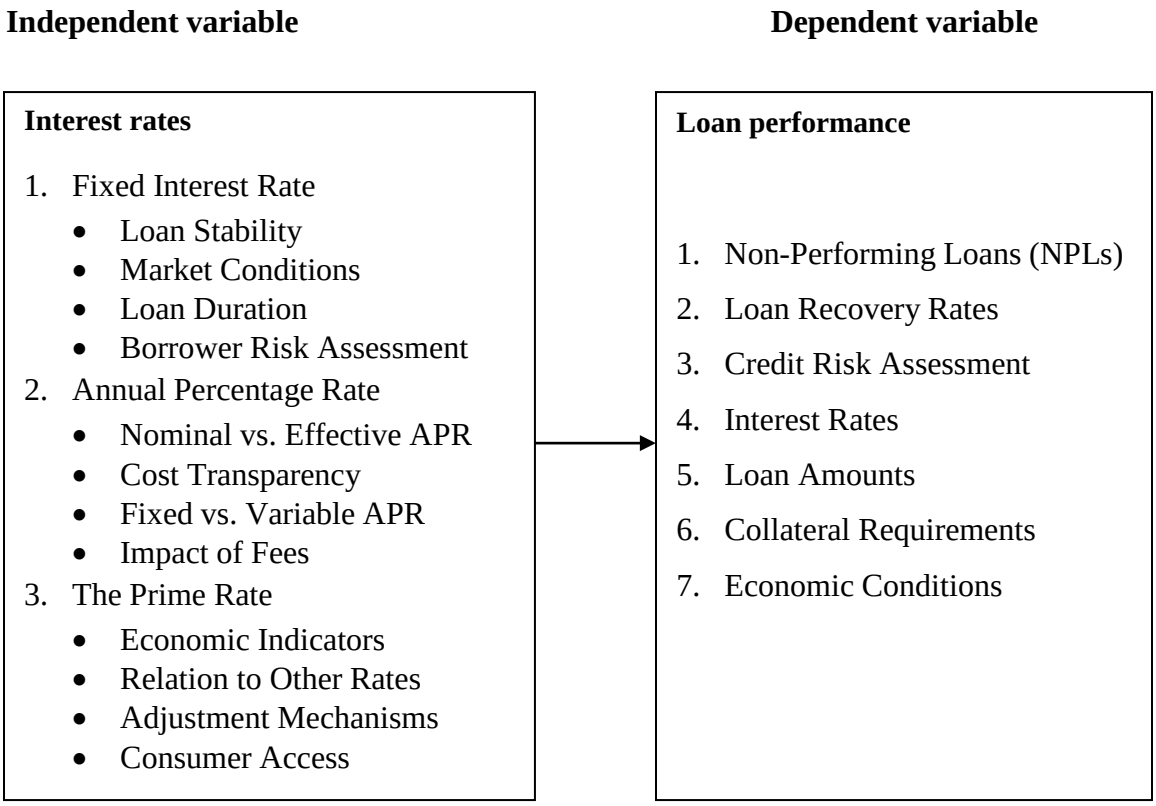


Figure 1.1 Conceptual framework of the study

(Adopted from O'Connell, 2019; Taylor, 2019; Bank of England, 2019)

In this study, the interest rate is conceptualized as an independent variable comprising several components, including the fixed interest rate, annual percentage rate (APR), and prime rate. The fixed interest rate remains constant across the life of the loan, making it predictable for borrowers (Mishkin, 2013). The annual percentage rate reflects the total cost of borrowing, expressed as a percentage of the total loan amount, which includes not only the interest but also any upfront fees (Kumar & Rao, 2015). The prime rate, often

used as a benchmark for various types of loans, is the interest rate that commercial banks offer to their most creditworthy customers, which unveils insights into the general lending conditions in the economy (Cecchetti & Schoenholtz, 2020).

Loan performance, as a dependent variable, is assessed through several key indicators, including non-performing loans (NPLs) (Dudley & Follain, 1991), loan recovery rates (Zinman, 2009), credit risk assessment (Berger & Udell, 1998), interest rates, loan amounts, collateral requirements, and economic conditions. NPLs highlight borrower distress, while recovery rates indicate the effectiveness of lending practices. Effective credit risk assessment helps reduce defaults, and manageable interest rates encourage timely repayments. The size of loans should align with borrowers' financial capacities to enhance repayment likelihood. Additionally, collateral requirements serve as risk mitigation, and broader economic conditions influence borrowers' ability to repay. Together, these indicators provide a comprehensive view of loan performance, reflecting both lending effectiveness and borrower financial health.

This study aims to explore the intricate interrelations between these variables, providing a comprehensive understanding of how interest rates influence loan performance within the microfinance sector in Uganda. Prior research indicates that interest rates can significantly affect borrowers' repayment behavior and overall financial health (Ghosh, 2013). By analyzing these components, the study provides insights into the dynamics of microfinance lending and its effects on borrowers‘ repayment capabilities.

1.9 Operational definition of terms

Interest rates:

Interest rate is defined in this study as the percentage charge attached to the borrowing of funds from a financial institution and also loan processing fees in total. Despite the fact that interest rates are defined by Lloyd (2006) and McConnell (2009) as the cost of borrowing money represented as a percentage.

Loan performance:

Loan performance is defined in this study as the ability of the financial institution to recoup its borrowed funds, including both the principal and interest effectively and efficiently. Despite the fact that return on asset (ROA) measures a company's profitability in relation to its total assets, loan performance (Irungu, 2013).

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents the literature review involving the use of text material, journals, magazines, dependable media articles, and other sources like the internet to bring out the gaps to be addressed in the study. Literature is reviewed based in line with the research objectives below:

i. To examine the influence of fixed interest rates on loan performance.
ii. To find out the effect of the annual percentage rate on loan performance.
iii. To establish the relationship between the prime rate and loan performance.

2.1 Theoretical review

Fisher‘s theory of interest rates serves as a foundational framework for understanding the dynamics between interest rates and loan performance. Introduced by Irving Fisher in 1930, this theory posits that individuals are inclined to spend money as soon as they possess it, which influences how interest rates are perceived and applied in lending contexts. Subsequent scholars, including Harrod (1971) and Tymoigne (2006), have built upon or critiqued Fisher‘s initial propositions, indicating that the theory has continued relevance and adaptability within economic discourse. This theory is critical for examining how interest rates affect borrowers' decisions, ultimately impacting loan performance.

At the core of Fisher's theory is the relationship between capital and revenue, suggesting that interest rates are determined by the interaction of these two economic components.

Specifically, the rate of interest can be viewed as the percentage of income generated from capital at a given moment in time. Fisher (1974) emphasizes that understanding this relationship is essential for both lenders and borrowers, as it directly influences financial decision-making and loan repayment capabilities.

The concept of interest as a premium paid for the use of money introduces another layer to Fisher's theory. Interest rates are essentially a measure of the cost of borrowing money, reflecting the perceived risk and opportunity cost associated with lending. This aspect is particularly relevant in the context of loan performance, as higher interest rates may deter borrowing or lead to increased defaults. Consequently, understanding the nuances of Fisher‘s theory provides valuable insights into how interest rates impact loan repayment behaviors.

Fisher‘s theory also suggests that while money serves as the primary medium for transactions, other assets can act as substitutes. This introduces the notion of a "money market," where present and future values of money are exchanged at a premium. As Tymoigne (2006) asserts, the practical implications of this theory highlight that actual transactions predominantly involve money, despite theoretical alternatives. This understanding is vital for analyzing how different types of interest rates affect borrowers' perceptions and behaviors, particularly in microfinance contexts such as Brac Uganda.

In conclusion, Fisher‘s theory of interest rates offers a robust theoretical underpinning for investigating the relationship between interest rates and loan performance. By examining the interaction between income and capital, the costs of borrowing, and the nature of money in transactions, this framework provides a comprehensive lens through which to assess the factors influencing loan repayment and financial stability. Future research and

policy implications can be better informed by these foundational concepts, enabling a more nuanced understanding of the dynamics within the lending market.

2.2 Review of related literature

2.2.1 Fixed interest rate and loan performance

A fixed interest rate refers to a set rate that does not fluctuate based on changes in the market or prime rate during the term of the loan. Borrowers with fixed interest rates have the advantage of knowing exactly what their payments will be over the life of the loan, making it easier to budget and plan for future financial commitments. According to Kagan (2021), a fixed interest rate provides predictability, reducing uncertainty for borrowers who may otherwise be subject to variable rate increases.

While some lenders may adjust a fixed interest rate under specific conditions, such adjustments are uncommon and usually tied to extraordinary circumstances (Hipp, 2019). This stability in loan payments makes fixed-rate loans attractive to borrowers, especially during periods of economic volatility (Bank of New Zealand, 2020). Furthermore, fixed-rate loans are more desirable during periods of low-interest rates, as borrowers can lock in a favorable rate, shielding themselves from future rate hikes (Wamala, 2019).

Fixed interest rates are especially common in long-term financing, such as mortgages, where the predictability of monthly payments is a significant benefit. The fixed nature of the interest rate allows borrowers to anticipate their costs and avoid the potential financial shock that may occur with variable-rate loans (Kopp, 2019). However, fixed-rate loans may come with higher interest rates compared to variable-rate loans, especially in environments where the current interest rate is low. This is because lenders anticipate

future rate hikes and price this risk into fixed-rate loans (Pritchard, 2019). Additionally, fixed-rate loans reduce the possibility of payment shocks, which can occur when the interest rate on a variable-rate loan increases unexpectedly (Mozo, 2020). Despite these benefits, fixed-rate loans can be inflexible, limiting borrowers' ability to make extra payments or refinance without incurring penalties (Bankrate, 2020).

The relationship between fixed interest rates and loan performance has been a subject of much academic inquiry. According to Asongu and De Moor (2020), borrowers who opt for fixed-rate loans tend to have lower default rates because they face fewer uncertainties in their repayment schedules. However, borrowers may still default if the fixed interest rate is set too high, leading to affordability issues, especially in periods of economic downturns (Cowan & Teodorović, 2021). This highlights the importance of carefully balancing interest rate levels with borrower repayment capacity. Furthermore, empirical studies in Uganda suggest that even with fixed interest rates, loan defaults continue to occur, particularly in segments such as SMEs, which are more vulnerable to macroeconomic shocks (Mutebile, 2021). The fixed-rate structure may not offer enough flexibility for these borrowers to adjust their payment schedules during financial hardships, which contributes to higher default rates in certain sectors.

Several studies have analyzed the impact of fixed interest rates on loan performance, particularly in the African context. Nyantakyi and Sy (2018) argue that the rigidity of fixed-rate loans often limits borrowers‘ capacity to manage liquidity during times of financial distress. While these loans provide stability, their inflexibility may prevent borrowers from adjusting to changing economic conditions. This issue is particularly pronounced in Uganda, where the economic environment is often unstable due to external shocks, such as fluctuations in commodity prices or political instability (Nangoli &

Wamala, 2019). In contrast, variable-rate loans offer more flexibility but carry the risk of rising interest rates, which can lead to payment shocks and higher default rates (Mozo, 2020). The literature highlights a gap in understanding how fixed-rate loans can be tailored to better suit the needs of borrowers in developing economies like Uganda, where economic volatility is more common.

Despite the perceived security of fixed interest rates, loan defaults remain a challenge for many banking institutions, particularly in developing markets. Wamala and Nuwagaba (2021) found that while fixed-rate loans are less likely to experience defaults during stable economic periods, defaults increase during times of economic crisis, even when interest rates are fixed. This is due to broader economic factors, such as inflation or unemployment, that affect borrowers' ability to make payments, regardless of the stability in interest rates. Additionally, studies by Beck and Cull (2020) show that the capital risk associated with fixed-rate loans can exacerbate loan performance issues. When interest rates decline, the capital value of the loan increases, creating a financial burden for both borrowers and lenders. This dynamic further complicates loan performance, as banks must manage both interest rate risk and borrower default risk simultaneously.

In conclusion, the literature indicates that fixed interest rates provide borrowers with predictability and stability, which are key factors in improving loan performance. However, the inflexibility of these loans, particularly during periods of economic downturns, may contribute to higher default rates in certain borrower segments. This review suggests a gap in understanding how fixed-rate loans can be made more adaptable to the unique economic conditions in developing markets like Uganda. Further research is

needed to explore how fixed interest rates can be structured to offer both stability and flexibility, particularly for SMEs and other vulnerable borrower groups.

2.2.2 Annual percentage rate and loan performance

The annual percentage rate (APR) is a widely recognized measure of the interest charged on loans, expressed as a yearly percentage of the outstanding debt. It reflects the total cost of borrowing, including interest and any additional fees associated with the loan (Pritchard & Catalano, 2019). For borrowers, understanding how APR works is critical in determining the actual cost of the loan over its term, as it provides a more comprehensive view of the financial obligations beyond just the nominal interest rate. According to the Bank of America (2020), APR is computed by taking into account both the interest rate and any associated loan fees, providing a standardized measure that helps borrowers compare different loan offers. While APR is applied to various types of credit, including credit cards, auto loans, and mortgages, its effectiveness in ensuring loan performance depends on several factors, including how it is applied and whether it is fixed or variable.

In practice, APRs are designed to offer transparency to borrowers, allowing them to understand the true cost of a loan. Banton (2020) points out that APR represents the interest that a borrower must pay over the life of the loan, and it is crucial for both individuals and businesses to grasp its implications to avoid mismanagement of debt. Despite its importance, however, borrowers often overlook the complexities behind APR, such as its distinction between nominal and effective APR. The nominal APR refers to the simple interest rate applied over the course of the loan, while the effective APR takes into account compound interest, offering a more accurate picture of the actual borrowing cost (Hayes & Somer, 2020). In this context, the effective APR becomes a crucial tool for

understanding the cumulative cost of borrowing, particularly when compound interest is involved. This complexity often creates challenges in financial literacy, as borrowers may not fully grasp the implications of how APR affects their long-term loan performance.

APR is not limited to loans, as deposit accounts can also be tied to an APR structure. According to Hayes (2020), when individuals or businesses maintain deposit accounts at financial institutions, they earn interest in the form of APR, which reflects the bank's borrowing costs for using the account holder's funds. This shows that APR functions in both borrowing and saving contexts, emphasizing its importance in understanding financial performance on both sides of the lending spectrum. The issue, however, is that many borrowers in Uganda, including those at Brac Uganda, Bududa Branch, fail to fully comprehend the intricacies of APR, resulting in suboptimal loan management. In many cases, insufficient borrower education about the implications of APR, whether nominal or effective, leads to inconsistent or missed payments, ultimately affecting overall loan performance (Corporate Finance Institute, 2020).

Despite the standardized nature of APR in providing borrowers with a clearer picture of their financial commitments, many borrowers still struggle with loan repayment due to high APRs. This is particularly true in developing countries like Uganda, where borrowers often have limited financial literacy. In many cases, the high APR rates lead to loan defaults, especially among small business owners who are unable to manage the compound interest over time (Blair, 2008). For instance, while APR ensures that borrowers understand the cost of credit, the lack of flexibility in payment schedules and high interest rates can result in higher default rates, particularly in periods of economic downturns (Nangoli & Wamala, 2021). This suggests that while APR provides

transparency, it does not necessarily guarantee improved loan performance if borrowers do not fully understand how it works or if the rates are too high for their financial capacity.

Lenders in Uganda are legally required to disclose the APR to potential borrowers to ensure transparency and informed decision-making (Reed, 2008). However, empirical evidence suggests that despite the disclosure of APR, the default rate on loans remains high, particularly in rural areas like Bududa, where financial literacy is low (Mutebile, 2021). A study by Mutebile (2021) on APR and loan performance in Uganda highlighted that many borrowers do not fully grasp the long-term implications of their APR, especially when it comes to managing the compound interest associated with their loans. As a result, many borrowers in rural areas end up defaulting on their loans, not because of unwillingness to pay, but due to a lack of understanding of how APR affects their monthly obligations. This problem is exacerbated by the relatively high APRs charged by microfinance institutions, which are common in these regions.

Furthermore, loan defaults are more likely to occur in cases where borrowers have not been adequately sensitized to the APR structure of their loans. According to a study by Asongu and Nwachukwu (2018), APR mismanagement is one of the leading causes of loan default in Sub-Saharan Africa. Many borrowers are unaware that even small changes in their monthly repayment schedule can significantly affect the total interest paid over the life of the loan. APR is calculated based on a set of assumptions regarding regular, on-time payments, and any deviation from this schedule, such as missed payments, can drastically increase the total cost of borrowing (CFI, 2020). This issue is particularly relevant to the Ugandan banking sector, where irregular incomes make it difficult for

borrowers to maintain consistent payment schedules, leading to higher overall interest payments and, eventually, loan default.

In contrast, more developed economies have mechanisms in place to assist borrowers in managing APR-related debt. In the U.S. and Europe, for example, APR is regulated to ensure that borrowers are not misled by hidden fees or exorbitant interest rates (Troy, 2020). Financial institutions are required to disclose both the nominal and effective APRs, giving borrowers a clearer understanding of the cost of credit. In addition, financial education programs help borrowers understand how to manage their debt, which reduces default rates. However, in Uganda, such measures are often lacking, particularly in rural areas where financial literacy remains low (Nangoli & Wamala, 2021). The result is that borrowers in these regions are more likely to default on their loans due to a lack of understanding of how APR works.

Given this backdrop, it becomes apparent that there is a need for better borrower education and regulatory oversight in the Ugandan banking sector. The high loan default rates, particularly in rural areas, suggest that many borrowers are not fully aware of the long-term implications of their APR. This study seeks to explore the impact of APR on loan performance, particularly in Brac Uganda, Bududa Branch, to understand how financial literacy and borrower education can be improved to enhance loan repayment rates. While APR provides a useful tool for comparing loans, its complexity can often overwhelm borrowers, leading to poor loan management and higher default rates. Therefore, the need for sensitization and borrower support mechanisms cannot be overstated, as they would help mitigate the adverse effects of APR mismanagement on loan performance.

2.2.3 The prime rate and loan performance

The prime rate, often referred to as the prime lending rate or prime interest rate, is a benchmark rate that commercial banks use to set the interest rates for various loan products. It is typically the interest rate charged by banks to their most creditworthy customers, usually large corporations with strong credit histories (Federal Reserve Bank of San Francisco, 2020). Hawks (2020) defines the prime rate in the United States as the interest rate established by the country's largest banks, serving as a reference for the rates they charge on consumer loans, credit lines, and other debt instruments. Traditionally, the prime rate was the lowest available interest rate and was offered to a bank's best customers, typically businesses with excellent credit profiles. However, in recent years, certain loans, particularly those with adjustable rates, have been offered at rates lower than the prime rate, although such rates remain available only to clients with high credit ratings and substantial collateral (Hawks, 2020).

While the prime rate serves as a reference for various financial products, it is crucial to note that it is not a uniform rate applied to all loans but rather a base rate. Most loans are structured as ‑prime plus‖ loans, where a premium is added to the prime rate to reflect the borrower's credit risk (Chen, 2019). According to the Corporate Finance Institute (CFI, 2020), the prime rate affects the rates on products such as credit cards, mortgages, and business loans. Since the prime rate is used as a foundation for setting these interest rates, fluctuations in the prime rate can significantly influence loan performance by altering the borrowing costs for consumers and businesses alike.

In the U.S., the prime rate is closely linked to the federal funds rate, which is set by the Federal Reserve. As of 2020, the U.S. prime rate stood at 3.25% (Amadeo, 2020). In

comparison, the Bank of Canada reported a prime rate of 2.45%, highlighting international variations in how prime rates are determined and applied (Bank of Canada, 2020). In Uganda, the benchmark interest rate, which plays a similar role to the prime rate, was last recorded at 7%, according to the Bank of Uganda (2020). This rate provides a critical reference for the pricing of loans, influencing not only the cost of borrowing for businesses and individuals but also the performance of these loans over time.

Although the prime rate is primarily relevant for large corporations, it also has implications for small and medium-sized enterprises (SMEs) and individual borrowers. For SMEs, in particular, the prime rate acts as a barometer for the cost of financing, which can impact business operations and loan performance (CFI, 2020). The relationship between the prime rate and loan performance is complex, especially for SMEs in developing economies like Uganda. While larger, creditworthy firms benefit from lower borrowing costs tied to the prime rate, smaller businesses often face higher interest rates due to perceived higher credit risks, which can lead to loan default if their revenue generation does not keep pace with the interest obligations (Mutebile, 2021).

In many developed countries, borrowers with stellar credit histories can secure loans at rates below the prime, primarily through short-term adjustable-rate loans with significant collateral requirements (Hawks, 2020). In Uganda, however, the high benchmark interest rate and the limited financial literacy of many borrowers mean that prime-based lending is less prevalent, and many loans are priced significantly higher than the prime rate, contributing to higher default rates. As noted by Nangoli and Wamala (2021), Uganda's financial sector is characterized by a significant gap in financial literacy, which complicates borrowers' understanding of how the prime rate and interest rate structures

affect their loan obligations. This gap contributes to loan defaults, particularly in rural areas such as Bududa District, where the population lacks access to comprehensive financial education and services.

Despite the theoretical expectation that prime-based lending should lead to higher loan performance, given that prime customers are the least likely to default, this is not always the case in practice. According to Thomas (2006), prime lending is traditionally associated with lower risk because banks offer the prime rate only to their most creditworthy clients, who are considered less likely to default. Yet, in developing markets such as Uganda, even loans pegged to the prime rate may experience higher default rates due to macroeconomic factors, including inflation, currency depreciation, and fluctuations in commodity prices. These factors can erode borrowers' ability to service their debt, even when they qualify for prime-rate loans.

Ho (2015) adds that while some banks may set their benchmark rates (BR) higher than others, they may still offer customers loans at effective lending rates (ELR) below the prime rate to stay competitive. In these cases, prime-rate customers may receive more favorable terms, but such loans are usually accompanied by stringent collateral requirements and are offered to borrowers with impeccable credit histories. In Uganda, however, the economic volatility and the high benchmark rate mean that prime-based lending does not always translate into improved loan performance. Instead, many borrowers struggle with debt repayment due to the combination of high interest rates and economic instability (Mutebile, 2021).

The prime rate is also considered a leading indicator of credit market conditions. Goldberg (1982), cited by Chen (2019), argues that the prime lending rate has evolved

into a key metric for assessing the health of the credit market. The rate is often adjusted in response to changes in the broader economic environment, such as shifts in monetary policy or inflationary pressures. In Uganda, for example, the Bank of Uganda adjusts its benchmark interest rate in response to inflation trends, which directly impacts the cost of borrowing for both businesses and individuals (Mutebile, 2021). However, even with a relatively stable benchmark rate, loan performance remains suboptimal, particularly among rural borrowers who face challenges in meeting their repayment obligations due to seasonal income fluctuations and limited access to credit (Nangoli & Wamala, 2021).

Amadeo (2020) highlights that U.S. banks typically offer their prime rate to their most valuable clients, who are considered the least likely to default on their loans. The prime rate serves as the foundation for most interest rates, including those for credit cards, adjustable-rate mortgages, and business loans. However, for less creditworthy customers, banks often charge interest rates that are significantly higher than the prime rate to compensate for the added risk. This results in a "prime plus" structure, where the interest rate on a loan is the prime rate plus a premium that reflects the borrower‘s credit risk (Amadeo, 2020). The same logic applies in Uganda, where borrowers with lower credit scores or insufficient collateral face higher borrowing costs, which can lead to loan performance challenges.

Despite the prime rate's role in shaping borrowing costs, there remains a gap in understanding how it affects loan performance, particularly in Uganda. Existing literature on prime-based lending primarily focuses on developed economies, where financial markets are more sophisticated, and borrowers have greater access to credit information and education (Ho, 2015; Chen, 2019). In contrast, the relationship between the prime

rate and loan performance in Uganda, especially in rural areas like Bududa District, remains underexplored. This study seeks to fill this gap by investigating how prime lending rates influence loan repayment behavior in Brac Uganda's Bududa Branch, where financial literacy and borrower education are less developed.

Given the complexities surrounding prime-rate lending and loan performance, it is essential to consider additional factors that may influence borrowers' ability to meet their repayment obligations. For instance, macroeconomic factors such as inflation, changes in commodity prices, and currency depreciation can all affect loan performance, even for borrowers who qualify for prime-based loans (Mutebile, 2021). Furthermore, the lack of financial literacy and limited access to formal financial services in rural areas exacerbates the challenges associated with prime-rate lending, as many borrowers may not fully understand how their loans are structured or how to manage their repayments effectively (Nangoli & Wamala, 2021).

In conclusion, while the prime rate serves as an important benchmark for setting interest rates on loans, its impact on loan performance is not straightforward. In theory, prime-rate lending should lead to lower default rates, as it is typically offered to the most creditworthy customers. However, in practice, factors such as financial literacy, economic volatility, and borrower education play significant roles in determining loan performance. This study aims to explore the relationship between the prime rate and loan performance at Brac Uganda's Bududa Branch to better understand the challenges and opportunities associated with prime-based lending in Uganda.

2.2.4 Loan performance

Loan performance and the aftermath of the financial crisis has confronted banks (The Economist, 2009). Lending is a bank's traditional function, and loans make up the majority of its assets (Njanike, 2009). But for banks, lending is a difficult undertaking since it leads to a significant issue known as non-performing loans (Upal, 2009). Banks run the risk of borrowers defaulting because of the nature of their business (Waweru & Kalami, 2009). According to Saba, Kouser, and Azeem (2012), non-performing loans (NPLs) should be carefully investigated since they have wrecked havoc on the financial markets throughout time. Also worth mentioning is that commercial banks dominate all other financial institutions when it comes to offering installment loans in the majority of the world's economies (Greuning & Bratanovic, 2003). Because of its importance, banks are required to assess the risks involved in lending every day. Corporate governance is continually used by banks to monitor, filter, and recover loans for improved loan performance (Mohammad, 2014).

Loan portfolios have an impact on operational effectiveness, which has an impact on bank earnings, liquidity, and solvency, according to Michael et al. (2006). While Weinberg (2006) argued that the two key elements determining repayment requirements are the quantity of debt owed and the interest rate charged. Therefore, banks should continue to follow a strategy of lending exclusively to borrowers who have a positive net present value for their companies. According to Bigambah (2001), a client analysis is required before a loan is granted; the applicant must be screened to determine his or her credit worthiness. That is the capacity to pay back the loan, the viability of the firm, and the guarantee that the loan will be repaid.

The projected odds of recovery are one of the factors that banks consider when deciding on a loan credit application, according to Getenga (2007), as cited by Thisika & Muturi (2017). Credit data on how well the applicant has honored prior loan obligations is needed in order to arrive at this. This credit information is significant since there is typically a clear correlation between previous and anticipated loan payback performance. Norell (2001) added that effective loan levels encourage business while fitting borrowers' repayment capabilities. According to Hughes (2020), lenders should regularly and consistently analyze loan performance data. The fact that overall delinquencies are low and loan yield is stable, he continues, should be noted. Therefore, there is always a chance that some of the loans you invest in won't be repaid on time (default), or you might end up losing money (a loss).

To reduce the risk of default, lenders need asset security on loans. If the borrower is unable to repay the loan, the lender may be required to sell the asset in order to recover some or all of the money owed by the borrower. Additionally, banks maintain discretionary provision reserves for the majority of their investment accounts to assist cover potential defaults and losses, but they may run out and cannot ensure there won't be a loss (Assetz Capital, 2020). Due to their lack of cash or tangible assets to offer as security, many households in developing nations also struggle to get loans. Because of this, they may have far less options in life, be unable to invest in their farms or other companies, and may be less resilient to economic shocks (Hernandez & Yanyan, 2019). Brac Uganda focuses on such households, especially farmers. This alone exposes the company to higher default risks.

The demand for competition in the mortgage lending industry, according to Green (2020), has never been higher. Depository lenders, fortunately, have an edge in this regard since, if they can tap into it, their current client base is a ready-made prospect database for mortgage lending. This has historically been quite challenging to do. According to Floify (2020), profit per loan has become a contentious issue in the mortgage business as overhead expenses have risen sharply in recent years. Banks may be suffering poor profit per loan for a variety of reasons. Naturally, a bank's loan portfolio is both their greatest asset and their primary revenue source. These assets are regarded as the most significant assets of banks due to the loans' considerable contribution to the financial stability of banks through the income from interest earned. Commercial banks and other financial institutions are subject to the risk of loan debtors defaulting as a result of their operations.

Additionally, non-performing assets pose a serious danger to the financial industry (Thisika & Muturi, 2017). Therefore, if the non-performing assets are not managed, they might deplete the asset book and eventually have an impact on the banks' profitability and overall performance (Tetteh, 2012; Thisika & Muturi, 2017). The circumstances under which businesses provide clients with credit or financing are known as credit terms (Moti et al., 2012). Credit terms, as defined by Ross et al. (2008), might include the timeframe, interest rate, and other circumstances under which financial institutions provide credit. According to a number of earlier studies, factors influencing how long credit is extended include the type of interest levied on the loan, the value of the collateral, market rivalry, and the size of the client's account (Ross et al., 2008). An organization can establish particular procedures for collecting money from borrowers in a

variety of ways (Moti et al., 2012), bearing in mind that some customers are moderate payers and others are non-payers.

According to Nichols (2018), banks can increase their average loan size to that sweet spot in order to maximize loan profitability. Many community banks have the chance to maximize loan returns by focusing on larger loans, even if other community banks may not be able to do so due to their geographic location, lending specialization, or competition. A bank should increase the capability of its loans division to control the whole lending value chain. That is true from the time of application until the borrower-borrower relationship is ended. This would considerably reduce the impact of unanticipated events that arise throughout the loan's term (Area, 2016). Knowing forth such establishments, this study goes forward to assess the influence of interest rates on loan performance in Brac Uganda, Bududa Branch.

2.3 Summary of literature review

According to Bigambah (2001), the primary contributing cause to loan default in Uganda is loan evaluation. The information supplied is frequently unverified, and in some circumstances it may even have been altered or fabricated. Lenders should take into account the borrowing offer and eventual repayment apart from any security when making loans. It should be emphasized that the borrower should be evaluated based on the present and the history, and that the interest options might be given based on the borrower's reputation. Saywer (2007) pointed out that it is crucial for the lender to take a direct interest in the borrower and keep tabs on his ongoing capacity and deserving of repayment of the debt.

The lender should monitor actual monthly sales, compare them to the monthly budget, determine the causes of any differences, and then decide on interest rate variations and payments. Regular communication with the borrower will give the lender a head start on any issues (Kohansal & Mansoori, 2009). They claim that a variety of variables, such as interest rate caps often enforced by the government, informal lenders' frequent monopolies on the credit market, the high processing costs faced by borrowers when applying for loans, risk issues, and many more, can result in loan defaults. With this, the study seeks to close the gap that exists especially in the area of interest rates and loan performance in the mind of Brac Uganda.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

The methodology used to carry out the study is presented in this chapter. The study population, sample size, sampling methods, data collecting tools, data processing, and analysis, as well as instrument reliability and validity, are the main areas covered.

3.1 Research design

The study adopted a cross-sectional research design, which involves collecting data at a single point in time to describe characteristics of a population or phenomenon (Creswell, 2014). Cross-sectional designs are particularly useful in identifying the current status of a subject, as they allow researchers to gather data across a wide sample within a limited timeframe. According to Mugenda and Mugenda (2003), cross-sectional studies are effective for answering research questions related to the current state of participants by testing hypotheses or generating insights about specific issues.

In this study, both qualitative and quantitative approaches were utilized to collect and analyze data. The quantitative methods were employed to gather measurable data, which were then statistically analyzed to identify patterns and trends. The qualitative techniques, on the other hand, allowed for in-depth exploration of the data, providing a more comprehensive understanding of the underlying issues. Qualitative data were collected through the review of reports, empirical literature, conference proceedings, and books, while quantitative data were gathered using structured questionnaires and analyzed using the Statistical Package for the Social Sciences (SPSS), version 20. This mixed-methods approach provided a robust framework for addressing the research

objectives and offered both breadth and depth in data analysis (Creswell & Plano Clark, 2017).

3.2 Area and population of the study

The target population is the group of people to which a researcher wishes to apply the findings of their study, according to Mugenda & Mugenda, 2003. The investigation was conducted at the Bududa Branch of Brac Uganda. Business development officers, credit management staff, monitoring and recovery staff, strategy staff, and bank clients made up the study's target group. These totaled up to 1,001 potential respondents.

3.3 Sample size

The sample size was got from the target population of 1,001 people and was determined using Krejcie and Morgan's (1970) Sampling Frame shown in Appendix II. The sample size was 322respondentsfrom each category divided by the overall population and multiplied by the sample size.

Table 3.1 Number of respondents for the study

Category	Population	Sample size	Sampling technique
Business Development Officers	06	02	Purposive sampling
Credit Management Staff	10	03	Purposive sampling
Monitoring and Recovery Staff	05	01	Purposive sampling
Strategy Staff	10	03	Purposive sampling
Loan Clients	980	269	Simple random sampling
Total	**1,001**	**278**	

Source: (Primary data, 2020)

3.4 Sampling techniques

The study employed both random and purposive sampling techniques as explained below:

3.4.1 Random sampling

Simple random sampling (SRS): the researcher used a simple random sampling technique (randomization) as gives the same probability and equal chances to all members of the population. Therefore, the researcher made a random sampling in selecting the Bank Clients to get the required sample because of their understanding of the phenomena. Simple random sampling gives a potential participant an equal opportunity to take part in the research study. In this study, the researcher obtained a list of Bank Clients. The researcher wrote their names on the list of small papers (each name on its paper), fold them, and pour them into a box. The researcher shook the box vigorously before picking out a paper at random after which the researcher noted down the name on that paper on a separate sheet of paper and notebook.

The researcher folded the paper and put it back into the box to maintain the probability and ensured the equal chance aspect. The same criterion was repeated from the part of picking out a paper until the required sample was obtained. Thus the researcher used the people whose names appeared on the separate sheet of paper as the sample respondents during the study.

3.4.2 Purposive sampling

Due to their familiarity with the study topic, the Business Development Officers, Credit Management Staff, Monitoring and Recovery Staff, and Strategy Staff were specifically sampled in this instance. Their participation was pre-arranged in advance to benefit from their rich knowledge. They filled out questionnaires and given the nature of their work they were free to fill them at their convenience.

3.5 Data collection methods

The study employed multiple data collection methods to ensure the reliability and comprehensiveness of the data gathered. The use of both quantitative and qualitative techniques allowed for a more nuanced understanding of the research objectives. Below are the primary tools used for data collection:

3.5.1 Questionnaires

The primary tool for data collection was a structured questionnaire, designed to collect a broad range of data from a large number of respondents. The questionnaire comprised both open-ended and close-ended questions. Open-ended questions allowed respondents to provide detailed, subjective insights, while close-ended questions facilitated easier quantification and analysis. The questionnaire was structured into sections that aligned with the study's objectives, enabling the researcher to gather targeted information on key variables such as loan performance, interest rates, and the respondents' demographic information. The questionnaire's design ensured clarity and simplicity to enhance response rates and minimize misunderstandings. This tool was crucial in collecting standardized data from multiple respondents, allowing the researcher to make valid comparisons and draw statistically significant conclusions (Kothari, 2004).

3.5.2 Interviews

To complement the data collected through the questionnaires, semi-structured interviews were employed to gain deeper insights into specific issues that could not be adequately captured through standardized questions. Interviews provided the researcher with flexibility, allowing for probing and follow-up questions based on respondents' answers. This method also enabled the collection of nuanced qualitative data, especially from key

informants or respondents with specialized knowledge. The interactive nature of interviews allowed for immediate clarification and on-the-spot data validation, which enhanced the accuracy and richness of the collected data (Bryman, 2016). Though interviews were intended to be supplementary, they played a crucial role in uncovering underlying perceptions and experiences related to loan performance and financial behavior, adding depth to the study's findings.

3.6 Research instruments

The two primary research instruments used were the questionnaire and an interview guide, though the latter was eventually not employed as initially intended. Each instrument was designed and structured to align with the research questions, ensuring a thorough investigation into the factors influencing loan performance.

3.6.1 Questionnaire

A questionnaire is one of the most commonly used tools in survey-based research for collecting data from respondents (Creswell & Creswell, 2017). It is a pre-formulated set of questions presented to respondents, where their responses are recorded systematically. For this study, questionnaires were designed to capture a wide range of data, including both demographic information and specific variables related to the study, such as interest rates, prime lending, and loan performance.

The questionnaire was structured into closed-ended questions, which provided quantitative data that could be easily analyzed using statistical tools, and open-ended questions, which allowed respondents to provide more detailed and qualitative insights. This combination was particularly useful in obtaining both measurable data and respondents‘ personal opinions and experiences. Questionnaires were distributed to a

larger population because they offer the advantage of anonymity, which encourages respondents to provide honest and unbiased feedback (Bryman, 2016). Moreover, the questionnaire enabled efficient data collection from a large sample within a short time frame. The structured format of the questionnaire also facilitated easy coding and analysis using software like SPSS, allowing the researcher to perform detailed statistical analyses to identify trends and correlations among the data (Fowler, 2014).

3.6.2 Interview guide

The interview guide was initially designed as a supplementary tool to collect qualitative data from key informants, particularly banking officials in the loan department. The interview guide consisted of open-ended questions aimed at eliciting in-depth responses regarding the officials' perceptions of the factors influencing loan performance. According to Kvale and Brinkmann (2009), interviews offer flexibility and the opportunity for researchers to probe respondents, thereby obtaining detailed and nuanced information that may not emerge from structured questionnaires. Face-to-face interviews were intended to allow for more comprehensive exploration of complex issues like interest rate fluctuations and loan defaults, which are often better understood through in-depth discussions (Seidman, 2019).

Although interviews were not employed, the interview guide would have allowed the researcher to explore respondent-specific issues in a more flexible and dynamic manner, probing for clarification when necessary. Interviews are especially useful when studying phenomena like financial decision-making processes, as they can reveal motivations and reasoning that are not easily captured through questionnaires (Gill et al., 2008).

3.7 Validity and reliability

To reduce the possibility of getting the wrong answer, attention was kept to the particulars of the research design, reliability, and validity as supported by Saunders et al. (2003). This was done as follows:

3.7.1 Validity

This is the measure of the extent to which a data collection tool measures what it is supposed to measure. Therefore, the validity of an instrument was measured based on expert opinion from the supervisor and other experts on the subject (Saunders et. al; 2003). In determining the validity of the research instrument, the researcher validated the tools by pre-testing the contents there in, whether they are concerning the variables, removing inappropriate questions, and streamlining them before using them in the field. After constructing the research instruments, the supervisors and other experts reviewed the items and checked on language clarity, relevancy, content comprehensiveness and length of the questionnaire as recommended by Polit & Bech, (2014). As per the rating obtained, the following formula was used to test the validity index (Amin, 2005):

$$\text{CVI} = \frac{\text{No. of items regarded relevant by judges}}{\text{Total No. of items judged}}$$

Therefore,

Validity is given by;

$$\frac{\text{VR} + \text{R}}{\text{No. of Items}}$$

$$\frac{20 + 11}{32}$$

Validity = 88.6%

From the supervisor‘s feedback, items on the questionnaire and interview guide were re-adjusted to fit the study purpose and answer the research questions. As per Kovacic‘s (2017) view, a CVI of above 0.7 means the instrument is valid and therefore collected valid data.

3.7.2 Reliability

Brennan, et al. (2001) define reliability as the extent to which an evaluation instrument generates reliable and consistent outcomes. According to George and Mallery (2003), reliability is defined as the measure of the level of consistency, they further added that an instrument is considered reliable if the results obtained after a correlation coefficient was undertaken reveal an answer that is greater than 0.7. And if the result is below 0.7, then the items are increased to improve the reliability. Because of this, the researcher employed test-retest reliability, a measure of dependability achieved by giving the same test to a group of people twice over a period of time. The results from the first and second administrations are then linked to assess the test's stability over time. The correlated result of this study was .897, thus reliable.

3.8 Research procedure

The researcher ensured that data collection procedures were fruitful by securing a cover letter from Uganda Christian University, which was presented to Brac Bududa Branch in Bududa district to give the researcher permission to carry out the study. The questionnaire was photocopied and then distributed to respondents whose consent was secured for administration. Respondents were approached in groups and as individuals to participate in face-to-face interview sessions, where an explanation was given to them

that the study was purely for academic purposes. The researcher collected the questionnaires in the aftermath of getting filled for further analysis.

3.9 Data analysis

After collecting data from the field, the researcher analyzed it to derive meaningful insights that would support the interpretation of findings and enable appropriate conclusions. Utilizing a descriptive research design, data analysis was conducted using computer programs such as Microsoft Excel and SPSS. The quantitative analysis involved calculating frequencies and means, while linear regression analysis was employed to examine relationships between variables and to predict outcomes based on independent factors. The initial step included coding responses from the questionnaires, facilitating the organization of data and ensuring its readiness for analysis. Descriptive statistics summarized the data, highlighting trends and patterns, while regression analysis provided insights into how different factors interacted and their impact on loan performance. To present the findings effectively, the researcher used tables, charts, and graphs, making complex data more accessible and comprehensible. This comprehensive approach ensured that the conclusions drawn were well-supported by the data, ultimately contributing to the study's overall objectives.

3.10 Limitations of the study

The expected limitations to the study were: Unwillingness of some respondents to give necessary information might affect the study exercise; over 30 respondents never returned the questionnaires due to fear of exposing the secrets; the research was costly due to more expenses involved in the exercise like formulation of questionnaires, phone calls among others; there was a problem of misinterpretation of the questions by the

respondents due to low education level and some of them skipped a few questions – though not as much.

3.11 Ethical consideration

This is an accumulation of values and principles that address questions of what is good or bad in human affairs (Saunders et. al; 2003). The researcher explained to the respondents by equipping them with the full knowledge of their need to participate in the study and draw complete awareness of the risks and benefits being explained to them. Confidentiality of the respondents‘ information was upheld and anonymity was fully observed during the research study. The information got from the respondents was not disclosed.

CHAPTER FOUR

PRESENTATION, ANALYSIS, AND INTERPRETATION OF FINDINGS

4.0 Introduction

This study was set to assess the influence of interest rates on loan performance in Brac Uganda, Bududa Branch. The study had three objectives, which included examining the influence of fixed interest rate on loan performance, finding out the effect of annual percentage rate on loan performance, and establishing the relationship between the prime rate and loan performance. For purposes of representativeness, the demographic characteristics of the respondents studied were their gender, age in years, level of education, and experience with Brac at the time of the study. The results on the demographic characteristics provided justified the findings as the information from these respondents can be relied on because they are the ones who are the loan customers and staff of Brac Uganda, Bududa Branch. The study findings were systematically presented in the subsequent sections.

4.1 Response rate

In survey research, the "respondent's rate" is the ratio of survey respondents to sample participants, which is often stated as a percentage (Aday, 1996). It is frequently stated as a percentage. Before beginning any analysis, the collected data was checked to ensure that the response rate was sufficient.

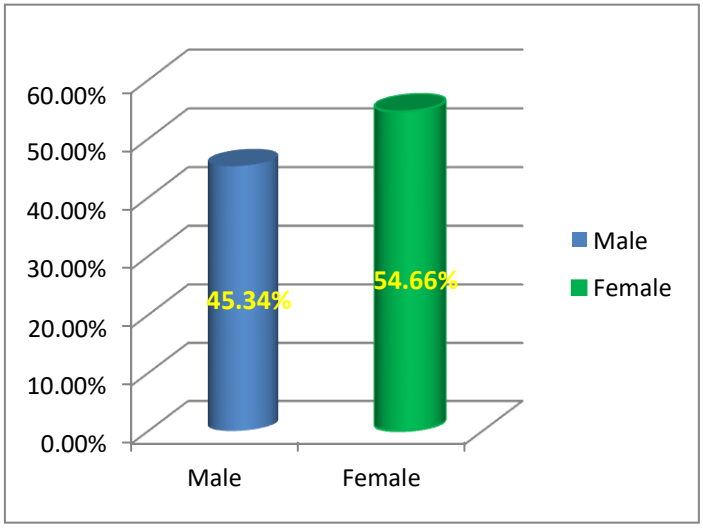
The study involved 236 participants in the process of data collection out of the planned 278 participants; hence, constituting an eighty-four point nine percent (84.9%) return rate. This study found that the majority of the targeted respondents had hectic schedules and were consequently difficult to reach. However, the study made an effort to get as much data as it could from the subjects. Depending on the group of respondents, several

factors contributed to the difference in the repose rate. For example, some respondents were very busy and difficult to reach, whilst others weren't as busy and were more accessible.

4.2 Demographic information

The interpretation of the data was made easier by the precise results regarding each attribute and its availability (Beins, 2009). Without this knowledge, the researcher runs the risk of making the absolutist assumption that "interesting phenomena are the same independent of culture and race/ethnicity." As a result, the survey contained the demographic details of the respondents, which are listed below.

a. Gender of respondents

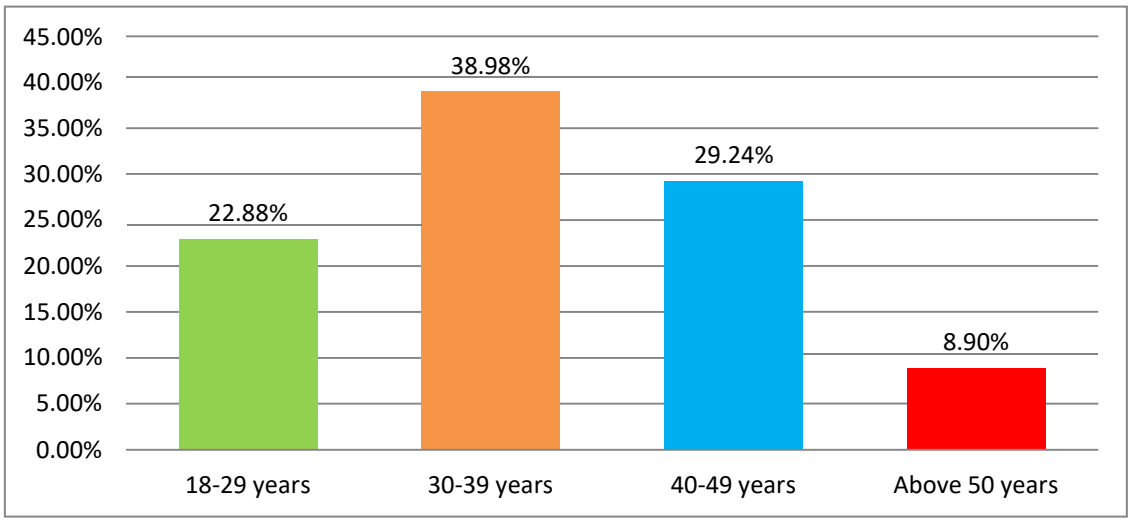


Source (Primary Data, 2021).

Figure 4.2 Gender of respondents

As represented in figure 4.1, the study comprised 54.66% female respondents, while male respondents were the majority with 45.34% of the total population. This representation shows the exactly expected turnout as most of Brac‘s loan customers are women.

b. Age of respondents

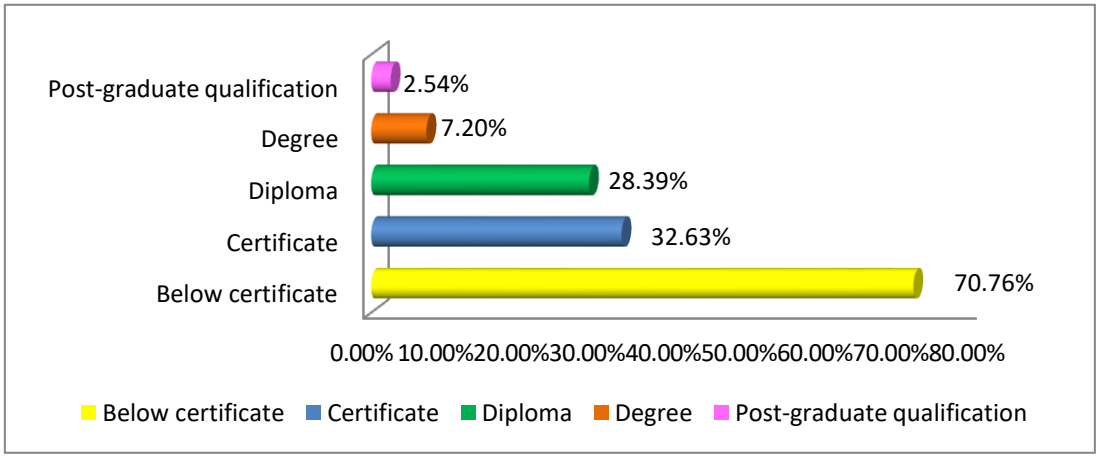


Source (Primary Data, 2021).

Figure 4.3 Age of respondents

The study findings from figure 4.3 showed that 22.88% of the respondents were 18 – 29 years, 38.98% were 30 – 39 years, 29.24% were 40 – 49 years, and 8.90% were above 50 years. These findings closely relate to the Landscape of the involvement and structure of Brac‘s customer and human resource portfolio.

c. Level of education



Source (Primary Data, 2021).

Figure 4.4 Level of education of respondents

Study findings revealed that the majority of the respondents (70.76%) did not have any education beyond certificate level. However, 3.63% had certificates, 28.39% had a diploma, 7.20% had a degree and 2.54% had a postgraduate qualification. It is not surprising that many of the participants had not attained higher levels of education as Brac‘s business model targets such categories of the population, mainly in villages.

d. Experience working with Brac

Table 4.2 Experience with Brac

		Frequency	Percent
Valid	0-5 years	117	49.6
	6-10 years	104	44.1
	Above 10 years	9	3.8
	Total	230	97.5
Missing	System	6	2.5
Total		**236**	**100.0**

Source (Primary Data, 2021).

As in table 4.2, the majority of participants had been with Brac from 0-5 years (49.6%), some other participants had spent 6-10 years (44.1), and above 10 years only had 3.8% representation. Many participants had only been with Brac for less than five (05) years, which is explanatory as Brac is relatively new in the area and had not spent so many years working with the population.

4.3 State of loan performance at Brac

Table 4.3 Descriptive statistics for loan performance

Statement	SD	D	N	A	SA	Mean	Comment
There is a high level of full repayment of loans at Brac Uganda	14.0	27.5	12.3	27.5	15.3	3.03	Moderate
Provisions for bad loans are very high in Brac Uganda	13.1	33.5	12.7	28.4	10.6	2.90	Moderate
Brac registers few loan arrears annually	14.8	19.5	12.3	35.6	15.7	3.18	High
Brac Uganda does not take over possession of assets of borrowers	28.0	32.6	7.6	18.2	11.9	2.53	Moderate
Brac has a lot of write offs for failed repayments	14.0	28.4	8.9	28.0	18.2	3.08	High
Brac achieves its loan collection goals every year	23.3	39.4	7.2	16.9	11.4	2.53	Moderate
Average mean						**2.88**	**Moderate**

Source (Primary Data, 2021).

The study results in table 4.3 above based on the pooled mean indicate a moderate level of loan performance at Brac (Mean = 2.88). There is however a variation in the level of loan performance. For instance, whereas there is high agreement that Brac registers few loan arrears annually (3.18) and attains full repayment of loans (3.03), the bank also has a lot of write-offs for failed repayments (3.08). Respondents moderately agreed that the bank has higher provisions for bad loans (2.90) as well as the achievement of its loan collection goals every year. In general, loan performance in Brac Uganda was found to be at a moderate level as portrayed by participants‘ moderate responses.

This is illustrative of the need for rethinking the banks‘ business model, and policy, and implementing interventions to permit improved loan performance. It is clear that the bank targets the poor, vulnerable, and women but this may not play well in terms of achieving greater loan performance levels. These findings are similar to what the Bank of New Zealand presented. From the findings, there was a high response rate that Brac offers interest that is fixed. This corroborates with literature findings about the Bank of New

Zealand (2020). According to the bank, borrowers can select between a fixed and a floating (or variable) interest rate for the majority of home loan types.

4.4 Fixed interest rate and loan performance

Table 4.4 Descriptive statistics for fixed interest rate and loan performance

Statement	SD	D	N	A	SA	Mean	Comment
Brac Uganda offers fixed interest rates to its customers	17.8	21.2	5.9	36.0	17.8	3.11	High
The interest rate will not change during the period of the fixed rate that a customer choses	12.7	31.4	11.9	32.6	11.0	2.98	Moderate
Mortgages or loan payments significantly increase over time in Brac Uganda	19.9	28.4	10.6	26.3	12.7	2.83	Moderate
Borrower can accurately predict their future payments	10.6	15.3	21.6	36.0	15.3	3.30	High
Fixed-rate loans are generally safer than loans with variable rates in Brac Uganda	16.9	23.7	15.3	32.2	11.0	2.97	Moderate
Loans with a fixed interest rate provides payment stability	18.2	30.9	12.7	25.8	11.4	2.81	Moderate
Fixed interest loans have high repayment levels at Brac	11.4	22.5	20.8	29.7	13.1	3.11	High
Average mean						**3.02**	**High**

Source (Primary Data, 2021).

As reflected in table 4.4, there is a generally high level of effective fixed interest rate application (performance) in Brac Uganda, Bududa Branch (Mean = 3.02). This reported level of effective application of fixed interest rates however varies between moderate and higher levels, as depicted by the mean values. This could be attributed to some interesting policy and implementation gaps by the bank and knowledge of the interest rate policy by the customers. The high level of fixed interest rate performance is reflected by the fact that fixed interest loans have high repayment levels (3.11) at Brac in Brac Uganda, Bududa Branch, and the borrower can accurately predict their future payments (3.30) in Brac Uganda, Bududa Branch. On the other hand, moderate levels of fixed interest rate performance are depicted by the fact that participants moderately rated fixed-rate loans as being generally safer than loans with variable rates in Brac Uganda. As shown in table

4.4, mortgages or loan payments had a moderate significant increase over time in Brac Uganda. To examine the influence of fixed interest rates on loan performance, a correlation was run to establish a relationship between the variables – whereas a regression was used to examine the significant influence of fixed interest rates on loan performance.

Correlation between fixed interest rate and loan performance

This section provides the correlation relating fixed interest rate and loan performance in Brac Uganda, Bududa Branch. In the table below are the correlation results that depict the relationship between fixed interest rate and loan performance in the Brac, Bududa Branch.

Table 4.5 Correlation between fixed interest rate and loan performance

Correlations

		Fixed interest rate and loan performance	Loan performance
Fixed interest rate and loan performance	Pearson Correlation	1	.625**
	Sig. (2-tailed)		.000
	N	236	236
Loan performance	Pearson Correlation	.625**	1
	Sig. (2-tailed)	.000	
	N	236	236

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

Source (Primary Data, 2021).

From table 4.5, there is a statistically considerable significant relationship between fixed interest rate and loan performance. That is to say, changes in fixed interest rates are correlated with changes in loan performance. In this study‘s first objective, Pearson‘s correlation was 0.625 for a fixed interest rate with a p-value less than 0.05 (0.000). For

this reason, we can conclude that there was a relationship between fixed interest rate and loan performance variables. Still, we cannot make any other conclusions about this relationship, based on the result of this correlation analysis alone. A regression was run to establish the influence relationship.

The magnitude of regression on the fixed interest rate and loan performance

To examine the influence of fixed interest rate on loan performance, the researcher ran a regression analysis to see if there was any significant influence between fixed interest rate and loan performance as below;

Table 4.6 Regression of fixed interest rate and loan performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. The error of the Estimate	Change Statistics			
					R Square Change	F Change	df1	df2	Sig. F Change
1	.625[a]	.391	.388	.69013	.391	150.193	1	234	.000

a. Predictors: (Constant), Fixed interest rate, and loan performance

Source (Primary Data, 2021).

The model summary in table 4.6 produced an adjusted R square of 0.388. This means 38.8% of changes of variations in loan performance are due to the sole influence of fixed interest rate while the remaining 61.2% are due to other factors.

Table 4.7 Coefficients of regression between fixed interest rate and loan performance

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.128	.160		7.046	.000
	Fixed interest rate and loan performance	.614	.050	.625	12.255	.000

a. Dependent Variable: Loan performance

Source (Primary Data, 2021).

The coefficient table above produced a Beta of 0.625. This implied that a 100% improvement in the aspects under fixed interest rate will positively influence loan performance by 62.5% while 37.5% are due to other factors. Therefore the statistics established were as r (0.625 (p=0.000) there was a statistically significant influence of fixed interest rate on loan performance in Brac, Bududa Branch.

Thus, the fixed interest rate had a positive and significant influence on loan performance in Brac, Bududa Branch. The study findings showed that the fixed interest rate had coefficients of significance based on 0.614, p-value .000 which is lower than 0.05 implying that for each increase in fixed interest rate improvement there is a 0.614 unit increase in loan performance in Brac, Bududa Branch. The influence of fixed interest rate on loan performance by t-test value was 7.046, which pointed out that the influence of fixed interest rate on loan performance is over and above the error associated with it.

4.4 Annual percentage rate and loan performance

Table 4.8 Descriptive statistics for annual percentage rate and loan performance

Statement	SD	D	N	A	SA	Mean	Comment
The Annual Percentage Rate is used in Brac Uganda	11.0	26.3	15.3	28.8	18.2	3.17	High
The yearly rate of interest that an individual must pay on a loan allows borrowers to clear their loans promptly	20.3	33.5	12.7	25.0	8.1	2.67	Moderate
Brac customers who borrow money understand the rate and terms of their APR	18.6	33.1	8.9	20.3	18.6	2.87	Moderate
Brac Uganda discloses APR to its customers before any agreement is signed	16.5	25.4	8.9	37.3	11.0	3.01	High
The total amount of interest payable and the cost of other charges in Brac Uganda do not overwhelm customers	9.7	22.9	12.3	34.7	19.5	3.32	High
Brac APR customers make consistent payments toward both their principal loan balance and the interest	13.1	19.1	10.6	34.3	21.6	3.33	High
At Brac, APR customers complete their loans in time	10.2	30.1	16.1	23.7	18.6	3.11	High
Average mean						**3.07**	**High**

Source (Primary Data, 2021).

The study results portrayed in table 4.8 revealed a high level of loan performance in Brac Uganda, Bududa Branch (Mean = 3.07). Such level of loan performance however varied from high levels to moderate levels as depicted by the mean values. Table 4.8 results show that the high levels in loan performance are reflected by the high rating that APR customers complete their loans in time (3.11) in Brac Uganda, Bududa Branch.

On whether the total amount of interest payable and the cost of other charges in Brac Uganda do not overwhelm customers, high levels are reflected (3.32). Also, respondents had moderate responses to the yearly rate of interest that an individual must pay on a loan allows borrowers to clear their loans promptly (2.67). The moderate levels of loan performance are also shown by the fact that Brac APR customers make consistent payments toward both their principal loan balance and the interest (3.33) and above all, participants highly agreed that Brac Uganda discloses APR to its customers before any

agreement is signed (3.01). To find out the effect of the annual percentage rate on loan performance, the researcher conducted correlation and regression analyses.

Correlation between annual percentage rate and loan performance

This section provides the correlational relationship between annual percentage rate and loan performance in Brac Uganda, Bududa Branch. In the table below are the correlational results that depict the relationship between annual percentage rate and loan performance:

Table 4.9 Correlation between annual percentage rate and loan performance

Correlations

		Annual percentage rate and loan performance	Loan performance
Annual percentage rate and loan performance	Pearson Correlation	1	.321**
	Sig. (2-tailed)		.000
	N	236	236
Loan performance	Pearson Correlation	.321**	1
	Sig. (2-tailed)	.000	
	N	236	236

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

Source (Primary Data, 2021).

Table 4.9 above means that there is a statistically significant relationship between annual percentage rate and loan performance. That is to say, changes in annual percentage rate are correlated with changes in loan performance. As per the study‘s second objective (to find out the effect of annual percentage rate on loan performance), the Pearson‘s Correlation results for the relationship between annual percentage rate and loan performance are ($r = 0.321$, $p < 0.000$). We, therefore, state that there is a strong relationship between the annual percentage rate on loan performance variables and the positive relationship.

The magnitude of regression of annual percentage rate and loan performance

Table 4.10 Regression of annual percentage rate and loan performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics			
					R Square Change	F Change	df1	df2	Sig. F Change
1	.321[a]	.103	.099	.83757	.103	26.837	1	234	.000

a. Predictors: (Constant), Annual percentage rate, and loan performance

Source (Primary Data, 2021).

The model summary in table 4.10 produced an adjusted R square of 0.99. This means 09.9% changes of variations in loan performance are due to the singular effect of the annual percentage rate while the remaining 90.1% are due to the other factors, which was not the main focus of this study on the objective to establish the effect of annual percentage rate on loan performance in Brac, Bududa Branch.

Table 4.11 Coefficients' of regression for annual percentage rate and loan performance

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.085	.187		11.168	.000
	Annual percentage rate and loan performance	.312	.060	.321	5.180	.000

a. Dependent Variable: Loan performance

Source (Primary Data, 2021).

The coefficient table above produced a Beta of 0.321. This implied that a 100% improvement in the aspects under the annual percentage rate will positively affect loan performance by 32.1% while 67.9% are due to other factors. Therefore, the statistics established were as r (0.321 (p=0.000) there was a statistically significant effect of annual percentage rate on loan performance in Brac, Bududa Branch.

These results corroborated Banton's (2020) observations and findings, according to which every time a person or organization takes out a typical loan, there is an additional fee known as interest that must be paid. The annual percentage rate, according to Banton, is the proportion of interest that the borrower must pay on the loan, which eventually equates to the loan's total cost.

Therefore, it is crucial for anyone taking out a loan to comprehend the details of their APR, particularly whether it is fixed or variable. This makes it possible for the borrower to create a budget, make responsible use of their loan, and make regular payments toward both the principle loan sum and the interest owed for the ability to borrow money. The total interest paid during the loan's term might vary significantly as a result of inconsistent or missed payments (Corporate Finance Institute - CFI, 2020). The yearly % therefore had a favorable and considerable impact on the performance of the loan.

The study findings showed that the annual percentage rate had coefficients of significance based on .312, p-value .000 which is lower than 0.05 implying that for each improvement in the annual percentage rate there are .312 unit increases in the loan performance of Brac Uganda, Bududa Branch. The effect of the annual percentage rate on loan performance by t-test value was 5.180, which pointed out that the effect of the annual percentage rate on loan performance is over and above the error associated with it.

4.5 The prime rate and loan performance

Table 4.12 Descriptive statistics for the prime rate and loan performance

Statement	SD	D	N	A	SA	Mean	Comment
Brac Uganda extends the prime rate to its creditworthy clients	12.3	21.6	16.5	36.0	11.9	3.14	High
At Brac, the prime rate is the most competitive rate a bank offered to only its most creditworthy clients	22.9	26.7	11.4	22.9	15.3	2.81	Moderate
There are situations where Brac charges a rate less than the prime rate for its creditworthy clients	16.5	23.7	18.6	23.3	16.1	3.12	High
Large corporations borrow from Brac Uganda to finance their operations	12.3	25.8	19.1	27.5	13.1	3.03	High
At Brac, only a customer with an excellent credit profile can access the prime rate (best rate) or lower	11.9	34.3	11.0	24.6	15.3	2.97	Moderate
Prime rate customers have the least loan default rates at Brac	17.8	29.2	18.6	19.9	12.7	2.80	Moderate
Brac's prime rate customers accurately clear their loan amounts and within the exact stipulated time frame	14.0	33.1	16.1	22.5	12.7	2.87	Moderate
Average mean						**2.96**	**Moderate**

Source (Primary Data, 2021).

On the relationship between the prime rate and loan performance, the study findings as portrayed in table 4.12 showed a generally average level of loan performance demonstrated in Brac Uganda, Bududa Branch (Mean = 2.96). The reported levels of loan performance vary greatly as reported by the respondents.

As shown in the table, the moderate loan performance is shown by the fact that participants moderately agreed that at Brac, only a customer with an excellent credit profile can access the prime rate (best rate) or lower. Table 4.12 shows that the fairly reported loan performance is in addition reflected by Brac's prime rate customers accurately clearing their loan amounts and within the exact stipulated time frame enhancing loan performance in Brac Uganda, Bududa Branch. Also, the respondents moderately agreed that at Brac, the prime rate is the most competitive rate a bank offered to only its most creditworthy clients.

On the other hand, the following queries had the participants highly agreeing:

#Brac Uganda extends the prime rate to its creditworthy clients.

#There are situations where Brac charges a rate less than the prime rate for its creditworthy clients.

#Large corporations borrow from Brac Uganda to finance their operations.

They portrayed the variance reported in the study findings. A correlation and regression were analyzed to show the extent to which prime rate related to loan performance in Brac, Bududa Branch.

Correlation between the prime rate and loan performance

This section provides the correlational relating to the relationship between the prime rate and loan performance in Brac Uganda, Bududa Branch. In the table below are the correlational results that depict the relationship between the prime rate and loan performance.

Table 4.13 Correlation between the prime rate and loan performance

Correlations

		The prime rate and loan performance	Loan performance
The prime rate and loan performance	Pearson Correlation	1	.344**
	Sig. (2-tailed)		.000
	N	236	236
Loan performance	Pearson Correlation	.344**	1
	Sig. (2-tailed)	.000	
	N	236	236

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

Source (Primary Data, 2021).

The findings presented in Table 4.13 shows a statistically significant relationship between the prime rate and loan performance. That is to say, changes in the prime rate are correlated with changes in loan performance. This is based on the Pearson Correlation results, which show a prime rate ($r = 0.344$, $p = 0.000$) with a p-value less than 5%. For this reason, it is thus resolved that a positive relationship exists between the prime rate and loan performance variables. A regression analysis was run to establish the relationship between the prime rate and loan performance.

The magnitude of regression on prime rate and loan performance

Table 4.14 Regression of the prime rate and loan performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics			
					R Square Change	F Change	df1	df2	Sig. F Change
1	.344[a]	.118	.114	.83037	.118	31.378	1	234	.000

a. Predictors: (Constant), The prime rate and loan performance

Source (Primary Data, 2021).

The model summary in table 4.14 produced an adjusted R square of 0.114. This meant that 11.4% changes of variations in loan performance are due to the sole developments in prime rate in Brac, Bududa Branch while the remaining 88.6% are due to the other factors not pertinent to the specific objective of establishing the relationship between the prime rate and loan performance.

Table 4.15 Coefficients of regression for the prime rate and loan performance

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.055	.179		11.493	.000
	The prime rate and loan performance	.333	.059	.344	5.602	.000

a. Dependent Variable: Loan performance

Source (Primary Data, 2021).

The coefficient table above produced a Beta of 0.344. This implied that a 100% enrichment in the aspects under the prime rate will positively enhance loan performance by 34.4% while 65.6% are due to other factors. Therefore the statistics established were as r (0.344 (p=0.000); there was a statistically significant relationship between the prime rate and loan performance in Brac, Bududa Branch.

These results corroborated Hawks' (2020) observations and findings, according to which the prime rate used to be the most attractive rate a bank could provide to just its most creditworthy customers. There are instances where banks charge a rate lower than the prime rate, such as with short-term adjustable rate loans, even though some banks may still provide loans to customers at their prime rate. Large firms that borrow money from commercial banks to fund their operations frequently have excellent creditworthiness (CFI, 2020).

Thus, the prime rate had a positive and significant relationship with loan performance in Brac, Bududa Branch. The study findings showed that the prime rate had coefficients of significance based on 0.333, p-value .000 which is lower than 0.05 implying that for each increase in the prime rate usage there is a 0.333 unit increase in the loan performance in Brac, Bududa Branch. The enhancement of loan performance by the prime rate by t-test value was 5.602 which pointed out that the enhancement of loan performance by the prime rate is over and above the error associated with it.

4.6 Interest rates and loan performance

Table 4.16Multiple regression of interest rates and loan performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.629[a]	.395	.388	.69057	.395	50.569	3	232	.000

a. Predictors: (Constant), The prime rate and loan performance, Annual percentage rate and loan performance, Fixed interest rate, and loan performance

Source (Primary Data, 2021).

In the interest that the study set out to assess the influence of interest rates on loan performance in Brac Uganda, Bududa Branch, model summary in table 4.16 produced an adjusted R square of 0.388. This means 38.8% of changes of variations in loan performance are due to the sole influence of interest rates, while the remaining 61.2% are due to the other factors that this study did not have a purpose in exploring.

Table 4.17 Coefficients of multiple regression of interest rates and loan performance

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.215	.181		6.702	.000
	Fixed interest rate and loan performance	.672	.069	.684	9.778	.000
	Annual percentage rate and loan performance	-.012	.062	-.013	-.201	.841
	The prime rate and loan performance	-.079	.066	-.081	-1.192	.235

a. Dependent Variable: Loan performance

Source (Primary Data, 2021).

This study assessed the influence of interest rates on loan performance in Brac Uganda, Bududa Branch, and the following results were obtained from each variable. The beta coefficient obtained was .684, p=.000 for fixed interest rates, -.201, p=.841 for annual percentage rate, and -.081, p = 235 was obtained for the prime rate. This implied that the most important focus in Brac, Bududa Branch is to put all attention to the fixed interest rate and invest more in it if higher loan performance levels are to be achieved in Brac Uganda, Bududa Branch.

CHAPTER FIVE

DISCUSSION OF FINDINGS

5.0 Introduction

This chapter presents study conclusions, discussions, and valuable recommendations after assessing the influence of interest rates on loan performance in Brac Uganda, Bududa Branch as presented below;

5.1 Summary of findings

The research summary is presented according to the objectives of the study. They have been summarized under the following research objectives subtitles; the influence of fixed interest rate on loan performance, the effect of annual percentage rate on loan performance, and the relationship between the prime rate and loan performance.

5.1.1 The influence of fixed interest rate on loan performance

Objective one was to examine the influence of fixed interest rates on loan performance. The following results were obtained from the field; the model summary of regression between fixed interest rate and loan performance. The adjusted R squared which is the coefficient of determination obtained from the regression was 0.388 (38.8%), and the statistics established were as r (0.625 (p=0.000) there was a statistically strong positive significant influence of fixed interest rate on loan. In the same manner, the traditional role of a bank is lending and loans make up the bulk of banks‘ assets. The loans are given with interests attached. This interest ranges from fixed to variable. From the findings, there was a high response rate that Brac offers interest that is fixed. This corroborates with literature findings about the Bank of New Zealand (2020). According to the bank, borrowers can select between a fixed and a floating (or variable) interest rate for the

majority of home loan types. During the duration (term) of the fixed rate that you select, an interest rate will not fluctuate.

The findings also indicated that the high level of fixed interest rate performance is reflected by the fact that fixed interest loans have high repayment levels (3.11) as a borrower can accurately predict their future payments (3.30). The results back up Wamala's (2019) claim that borrowers who seek predictable payments typically favor fixed-rate loans since their costs won't fluctuate. Since fixed rates are rated highly, it can be concluded that they provide borrowers with complete transparency regarding the required payment amounts and protection from unexpected increases in the overnight rate. This means that borrowers do not need to be concerned about changes in the overnight rate and how they will affect their fixed interest rate.

5.1.2 The effect of annual percentage rate on loan performance

Objective two was to find out the effect of the annual percentage rate and loan performance. The following results were obtained from the field; the model summary of regression between annual percentage rate and loan performance. The adjusted R squared which is the coefficient of determination obtained from the regression was 0.99 (09.9%), and the statistics established were as r (0.321 (p=0.000) there was a statistically significant effect of annual percentage rate on loan performance.

In a related study, Pritchard & Catalano (2019) found out that lenders don‘t provide loans for free. They usually charge origination, administration, processing, and recording fees. These fees add up. And if a client doesn‘t pay attention, he might end up spending more for a loan even if it boasts a low-interest rate. According to Banton (2020), the annual percentage rate (APR) is the proportion of interest that the borrower must pay on the

loan, which adds up to the entire cost of the loan in the end. He further asserts that companies or people are not always the ones making the APR payments. From the findings, the Annual Percentage Rate is used in Brac Uganda with a high (Mean-3.17). As revealed from the literature, comprehending how APRs operate aids in your knowledge of the overall cost of borrowing (Pritchard & Catalano, 2019). At Brac, there was a moderate response on an understanding of the APR (Mean-2.87).

5.1.3 The relationship between the prime rate and loan performance

Objective three was to establish the relationship between the prime rate and loan performance. The following results were obtained from the field; the model summary of regression between prime rate and loan performance. The adjusted R squared which is the coefficient of determination obtained from the regression was 0.114 (11.4%), and the statistics established were (0.344 (p=0.000) there was a statistically positive relationship between the prime rate and loan performance.

Objective three sought to know the relationship between the prime rate and loan performance. The reported levels of loan performance from the findings varied greatly as reported by the respondents. As shown in the table, the moderate loan performance is shown by the fact that participants moderately agreed that at Brac, only a customer with an excellent credit profile can access the prime rate (best rate) or lower. This is consistent with research findings showing that major firms are the clients with high creditworthiness that borrow money from commercial banks to fund their operations with debt (CFI, 2020). However, on the relationship between the prime rate and loan performance, the study findings as portrayed in table 4.13 showed a generally average level of loan performance demonstrated in Brac Uganda, Bududa Branch (Mean = 2.96) and the regression results.

CHAPTER SIX

CONCLUSIONS AND RECOMMENDATIONS

6.0 Introduction

In this chapter, the conclusions and recommendations are presented in line with the study results for each objective. Furthermore, areas of further study and the general study conclusion are also presented.

6.1 Conclusion

In light of the foregoing discussion of the influence of interest rates on loan performance in Brac Uganda, Bududa Branch; the following conclusions were drawn;

i. The study concluded that the fixed interest rate had a significant positive influence on loan performance in Brac Uganda, Bududa Branch. Specifically, the study also concluded that fixed interest rates had a strong positive influence on loan performance, as noted by the majority of respondents. The bank, therefore, needs to keep utilizing more of the fixed interest rate but keeping note of the recommendations in this study.

ii. Moreover, the study concluded that the annual percentage rate affected loan performance in Brac Uganda, Bududa Branch. The majority of the respondents agreed that the annual percentage rate was being offered by Brac, which gave a positive r^2 value, meaning that Brac Uganda, Bududa Branch utilized the annual percentage rate when giving loans to customers. This is to say that the bank should not abandon the annual payment percentage, but rather invest more of it so that loan performance results can be improved.

iii. The study further concluded that there was a positive significant relationship between the prime rate and loan performance. A good number of respondents with a high R^2

indicated that in Brac Uganda, Bududa Branch did offer prime rates. Therefore, the bank needs to expand on the prime rate offers to attract more new customers, which will increase the bank‘s loan portfolio.

6.2 Recommendations

From the study findings, the following recommendations are proposed:

6.2.1 The influence of fixed interest rate on loan performance

To ensure optimal loan performance, it is essential for Brac Uganda, Bududa Branch to implement a robust assessment and appraisal process for fixed interest loans prior to disbursement. Given that many borrowers may have limited educational backgrounds, clear communication of loan terms and conditions is vital. Policymakers should consider establishing guidelines for continuous monitoring and evaluation of borrowers‘ businesses enrolled in fixed interest loans. This proactive approach would enable early identification of potential repayment issues, thereby reducing default rates and fostering a culture of financial responsibility among borrowers.

6.2.2 The effect of annual percentage rate on loan performance

To address the challenges associated with loans linked to annual percentage rates, it is crucial for Brac Uganda, Bududa Branch to develop a comprehensive policy for managing defaulting loans. This policy should include measures such as refinancing options, top-up loans, and loan restructuring to facilitate timely repayments. Additionally, implementing educational initiatives that provide clients with insights into effective business practices could empower them to meet their financial obligations. Community training and sensitization programs should be formalized within the bank's operational framework to enhance borrowers' financial literacy.

6.2.3 The relationship between the prime rate and loan performance

The study highlights ongoing challenges with loan recovery at Brac Uganda, Bududa Branch, particularly concerning prime rate borrowers. It is recommended that the bank adopt a cautious approach to financing these borrowers to avoid excessive loan amounts that may lead to prolonged repayment periods. Policymakers should endorse the use of electronic financial tracking systems to monitor prime rate loan statuses effectively, thereby enabling timely intervention when necessary.

Furthermore, establishing independent community loan assessment teams should be a priority. These teams should be tasked with implementing rigorous vetting processes to ensure borrowers possess the necessary integrity and creditworthiness. This policy initiative would not only enhance loan recovery efforts but also contribute to a more trustworthy lending environment, reducing the risks associated with lending to unreliable customers.

By incorporating these recommendations, Brac Uganda, Bududa Branch can establish a framework that not only improves loan performance but also aligns with broader financial policy objectives aimed at promoting sustainable lending practices within the community..

6.3 Suggested areas for further research

Building on the findings and conclusions regarding the influence of interest rates on loan performance at Brac Uganda, Bududa Branch, several areas for further research are proposed. Firstly, investigating the relationship between fixed interest rates and loan recovery could provide deeper insights into how this pricing structure impacts borrowers‘ repayment behaviors. Additionally, exploring the various factors affecting loan recovery

in rural communities is essential, as these areas may present unique challenges and opportunities that differ from urban settings. Furthermore, examining the role of prime interest rates in the timely recovery of loans would contribute valuable knowledge to the discourse on lending practices and borrower behavior.

It is also important to note that the current study was limited to a relatively small population focused solely on Brac Uganda, Bududa Branch. Future researchers are encouraged to expand their study scope to include multiple branches and financial institutions, which would enhance understanding of broader trends and practices in loan performance across different contexts. This broader approach could yield insights that inform policy and practice within the financial sector as a whole.

6.4 Conclusion

This chapter presented the summary and discussion of findings, conclusions, and recommendations. From the findings of this study, there was a positive influence of interest rates on loan performance in Brac Uganda, Bududa Branch. Furthermore, the bank needs to continue to use more of the fixed interest rate as it has the highest effect on loan performance.

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APPENDICES

Appendix I: QUESTIONNAIRE

Dear Respondent, I am Wanale Norah Nabudo, an MBA student at Uganda Christian University. As a requirement for the award of Master of Business Administration, I am mandated to undertake academic research. Kindly respond to the queries below on the study entitled, ‒Interest Rates and Loan Performance in Brac Uganda‘‘. The information you will provide will be treated with the utmost confidentiality and used only for the study.

Signature of Respondent: ……..

Instructions: Tick in the box indicating the appropriate response to the question asked.

SECTION A. Demographic Information

1. Gender of respondent

1. Male ☐ 2. Female ☐

2. Age of respondent

1. 18 – 29 years ☐ 2. 30 - 39 years ☐ 3. 40 – 49 years ☐ 4. Above 50 years ☐

3. Level of education

1. Certificate ☐ 2. Diploma ☐ 3. Degree ☐ 4. Post-graduate qualification ☐

4. Number of years spent working with Brac

1. 0-5years ☐ 2. 6-10years ☐ 3. Above 10 years ☐

SECTION B: Fixed interest rate and loan performance

SD – Strongly Disagree, D – Disagree, N – Neutral, A – Agree, SA – Strongly Agree

	ITEM	**OPINIONS**				
		SD	**D**	**N**	**A**	**SA**
1	Brac Uganda offers fixed interest rates to its customers					
2	The interest rate will not change during the period of the fixed rate that a customer chooses					
3	Mortgages or loan payments significantly increase over time in Brac Uganda					
4	A borrower can accurately predict their future payments					
5	Fixed-rate loans are generally safer than loans with variable rates in Brac Uganda					
6	Loans with a fixed interest rate provide payment stability					
7	Fixed interest loans have high repayment levels at Brac					

SECTION C: Annual percentage rate and loan performance

SD – Strongly Disagree, D – Disagree, N – Neutral, A – Agree, SA – Strongly Agree

	ITEM	OPINIONS				
		SD	D	N	A	SA
1	The Annual Percentage Rate is used in Brac Uganda					
2	The yearly rate of interest that an individual must pay on a loan allows borrowers to clear their loans promptly					
3	Brac customers who borrow money understand the rate and terms of their APR					
4	Brac Uganda discloses APR to its customers before any agreement is signed					
5	The total amount of interest payable and the cost of other charges in Brac Uganda do not overwhelm customers					
6	Brac APR customers make consistent payments toward both their principal loan balance and the interest					
7	At Brac, APR customers complete their loans in time					

SECTION D: The prime rate and loan performance

SD – Strongly Disagree, D – Disagree, N – Neutral, A – Agree, SA – Strongly Agree

	ITEM	OPINIONS				
		SD	D	N	A	SA
1	Brac Uganda extends the prime rate to its creditworthy clients					
2	At Brac, the prime rate is the most competitive rate a bank offered to only its most creditworthy clients					
3	There are situations where Brac charges a rate less than the prime rate for its creditworthy clients					
4	Large corporations borrow from Brac Uganda to finance their operations					
5	At Brac, only a customer with an excellent credit profile can access the prime rate (best rate) or lower					
6	Prime rate customers have the least loan default rates at Brac					
7	Brac‘s prime rate customers accurately clear their loan amounts and within the exact stipulated time frame					

SECTION E: Loan performance

SD – Strongly Disagree, D – Disagree, N – Neutral, A – Agree, SA – Strongly Agree

	ITEM	**OPINIONS**				
		SD	**D**	**N**	**A**	**SA**
1	There is a high-level full repayment of loans at Brac Uganda					
2	Provisions for bad loans are very high in Brac Uganda					
3	Brac registers a few loan arrears annually					
4	Brac Uganda does not take over possession of assets of borrowers					
5	Brac has a lot of write-offs for failed repayments					
6	Brac achieves its loan collection goals every year					

Thank you for your participation!

Appendix II: INTERVIEW GUIDE

Part 1: Influence of fixed interest rate on loan performance

a. Does Brac offer fixed interest to its customers and to what limits?
b. How does fixed interest help a customer in making it easy to repay the loan?
c. What is your experience with Brac‘s fixed interest charges?

Part 2: Effect of annual percentage rate on loan performance

a. Has the annual percentage rate been used across Brac‘s customers and to what extent?
b. To what extent has the annual percentage rate made it easier for customers to clear their loans?
c. Do you think Brac should use the annual percentage rate more often?

Part 3: The relationship between the prime rate and loan performance

a. Do you think Brac uses the prime rate on some of its reliable clients and why?
b. Do the prime rate customers in Brac accurately & timely clear their loans and if so, why?
c. Do you think the bank should consider using the prime rate more and if yes, why>
d. What strategies do you think Brac can utilize to enroll more customers into prime rate lending?

Appendix III: Krejcie and Morgan (1970) Sampling Frame

Table for Determining Sample Size from a Given Population

Table 3.1

Table for Determining Sample Size of a Known Population

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	346
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	354
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	191	1200	291	6000	361
45	40	170	118	400	196	1300	297	7000	364
50	44	180	123	420	201	1400	302	8000	367
55	48	190	127	440	205	1500	306	9000	368
60	52	200	132	460	210	1600	310	10000	370
65	56	210	136	480	214	1700	313	15000	375
70	59	220	140	500	217	1800	317	20000	377
75	63	230	144	550	226	1900	320	30000	379
80	66	240	148	600	234	2000	322	40000	380
85	70	250	152	650	242	2200	327	50000	381
90	73	260	155	700	248	2400	331	75000	382
95	76	270	159	750	254	2600	335	1000000	384

Note: N is Population Size; S is Sample Size *Source: Krejcie & Morgan, 1970*

Note: N = population size
S = sample size

**Educational and Psychological Measurement,* Krejcie& Morgan (1970)

Appendix IV: Reliability

```
[DataSet1] C:\Users\Oloba\Google Drive\Fellows Analytics\Fellows Research
Services\Wanale UCU\Norah Data File.sav
```

Scale: ALL VARIABLES

Case Processing Summary

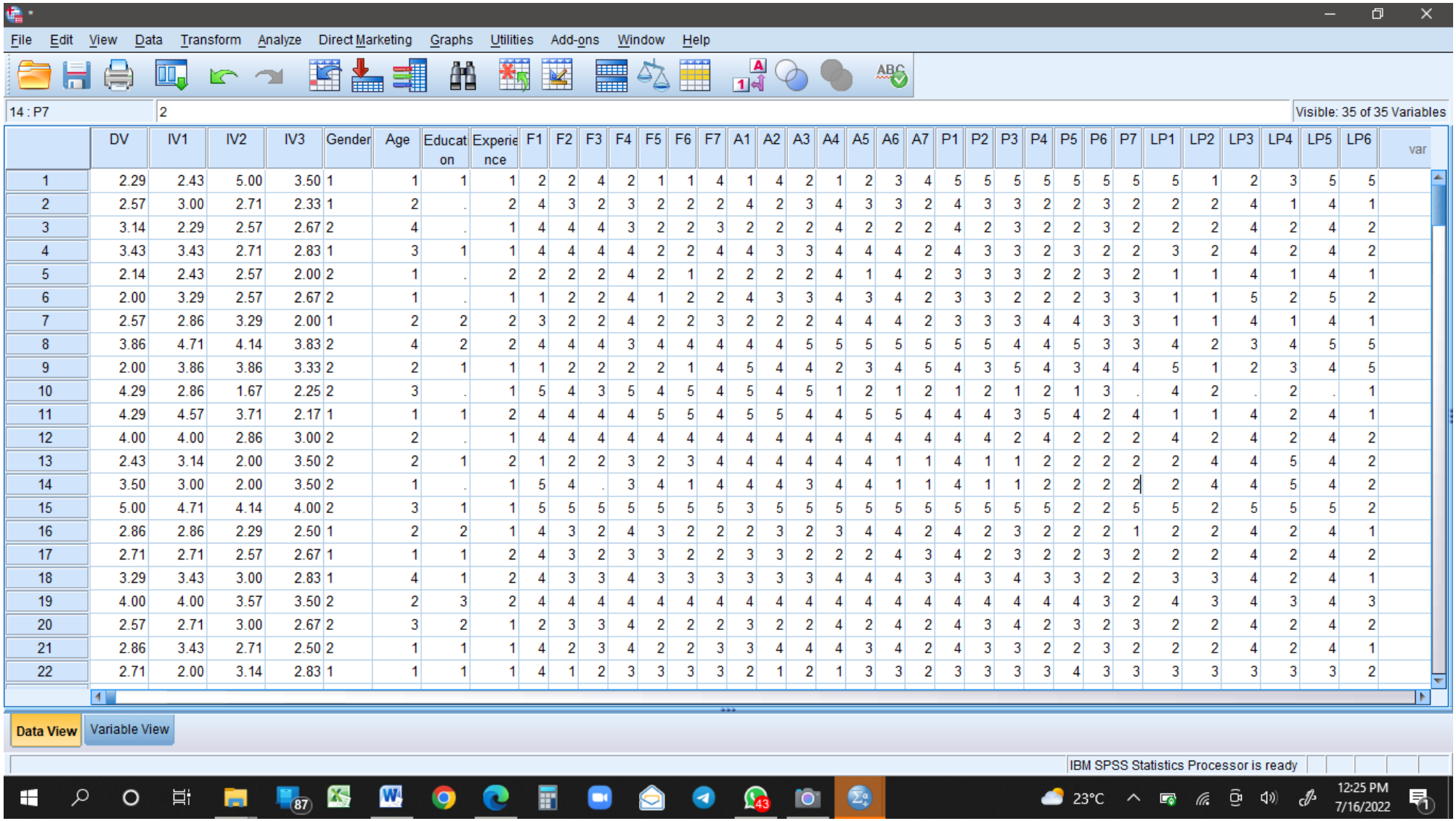
		N	%
Cases	Valid	191	80.9
	Excluded[a]	45	19.1
	Total	236	100.0

a. List wise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.897	27

Appendix V: SPSS Data Set



File Edit View Data Transform Analyze Direct Marketing Graphs Utilities Add-ons Window Help

14 : P7 | 2 | Visible: 35 of 35 Variables

	DV	IV1	IV2	IV3	Gender	Age	Education	Experience	F1	F2	F3	F4	F5	F6	F7	A1	A2	A3	A4	A5	A6	A7	P1	P2	P3	P4	P5	P6	P7	LP1	LP2	LP3	LP4	LP5	LP6	var
1	2.29	2.43	5.00	3.50	1	1	1	1	2	2	4	2	1	1	4	1	4	2	1	2	3	4	5	5	5	5	5	5	5	5	1	2	3	5	5	
2	2.57	3.00	2.71	2.33	1	2	.	2	4	3	2	3	2	2	2	4	2	3	4	3	3	2	4	3	3	2	2	3	2	2	2	4	1	4	1	
3	3.14	2.29	2.57	2.67	2	4	.	1	4	4	4	3	2	2	3	2	2	2	4	2	2	2	4	2	3	2	2	3	2	2	2	4	2	4	2	
4	3.43	3.43	2.71	2.83	1	3	1	1	4	4	4	4	2	2	4	4	3	3	4	4	4	2	4	3	3	2	3	2	2	3	2	4	2	4	2	
5	2.14	2.43	2.57	2.00	2	1	.	2	2	2	2	4	2	1	2	2	2	2	4	1	4	2	3	3	3	2	2	3	2	1	1	4	1	4	1	
6	2.00	3.29	2.57	2.67	2	1	.	1	1	2	2	4	1	2	2	4	3	3	4	3	4	2	3	3	2	2	2	3	3	1	1	5	2	5	2	
7	2.57	2.86	3.29	2.00	1	2	2	2	3	2	2	4	2	2	3	2	2	2	4	4	4	2	3	3	3	4	4	3	3	1	1	4	1	4	1	
8	3.86	4.71	4.14	3.83	2	4	2	2	4	4	4	3	4	4	4	4	4	5	5	5	5	5	5	5	4	4	5	3	3	4	2	3	4	5	5	
9	2.00	3.86	3.86	3.33	2	2	1	1	1	2	2	2	2	1	4	5	4	4	2	3	4	5	4	3	5	4	3	4	4	5	1	2	3	4	5	
10	4.29	2.86	1.67	2.25	2	3	.	1	5	4	3	5	4	5	4	5	4	5	1	2	1	2	1	2	1	2	1	3	.	4	2	.	2	.	1	
11	4.29	4.57	3.71	2.17	1	1	1	2	4	4	4	4	5	5	4	5	5	4	4	5	5	4	4	4	3	5	4	2	4	1	1	4	2	4	1	
12	4.00	4.00	2.86	3.00	2	2	.	1	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	2	4	2	2	2	4	2	4	2	4	2	
13	2.43	3.14	2.00	3.50	2	2	1	2	1	2	2	3	2	3	4	4	4	4	4	4	1	1	4	1	1	2	2	2	2	2	4	4	5	4	2	
14	3.50	3.00	2.00	3.50	2	1	.	1	5	4	.	3	4	1	4	4	4	3	4	4	1	1	4	1	1	2	2	2	2	2	4	4	5	4	2	
15	5.00	4.71	4.14	4.00	2	3	1	1	5	5	5	5	5	5	5	3	5	5	5	5	5	5	5	5	5	5	2	2	5	5	2	5	5	5	2	
16	2.86	2.86	2.29	2.50	1	2	2	1	4	3	2	4	3	2	2	2	3	2	3	4	4	2	4	2	3	2	2	2	1	2	2	4	2	4	1	
17	2.71	2.71	2.57	2.67	1	1	1	2	4	3	2	3	3	2	2	3	3	2	2	2	4	3	4	2	3	2	2	3	2	2	2	4	2	4	2	
18	3.29	3.43	3.00	2.83	1	4	1	2	4	3	3	4	3	3	3	3	3	3	4	4	4	3	4	3	4	3	3	2	2	3	3	4	2	4	1	
19	4.00	4.00	3.57	3.50	2	2	3	2	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	3	2	4	3	4	3	4	3	
20	2.57	2.71	3.00	2.67	2	3	2	1	2	3	3	4	2	2	2	3	2	2	4	2	4	2	4	3	4	2	3	2	3	2	2	4	2	4	2	
21	2.86	3.43	2.71	2.50	2	1	1	1	4	2	3	4	2	2	3	3	4	4	4	3	4	2	4	3	3	2	2	3	2	2	2	4	2	4	1	
22	2.71	2.00	3.14	2.83	1	1	1	1	4	1	2	3	3	3	3	2	1	2	1	3	3	2	3	3	3	3	4	3	3	3	3	3	3	3	2	

Data View | Variable View

IBM SPSS Statistics Processor is ready

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SCHOOL OF RESEARCH & POSTGRADUATE STUDIES

DISSERTATION CORRECTION COMPLIANCE REPORT BY THE CANDIDATE (POST VIVA FORM)

Date: 7TH, OCTOBER, 2024

Name of Candidate: WANALE NORAH NABUDO **Reg. No:** S17/MUC/MBA/002

Title of Dissertation: INTEREST RATES AND LOAN PERFOMANCE IN BRAC UGANDA, BUDUDA BRANCH

SN	COMMENTS BY EXTERNAL EXAMINER	ACTION TAKEN	INDICATOR
1	**OVERALL STRUCTURE AND PRESENTATION** The Dissertation has been presented in line with the University guidelines as far as the overall structure and presentation are concerned. However, the abstract has paragraphs and a citation which is not proper	The abstract has been re-adjusted in line with the UCU format.	Preliminary page ii
2	**CHAPTER ONE: INTRODUCTION** **2.1 Background (conceptual, theoretical, and contextual)** The background is fairly well written though most statements are not original. Additionally, no statistical trends on loan performance have been presented. **2.2 The problem statement** The problem statement is fairly well articulated. However, some key statements are made without timely relevant supporting evidence	Citations have been improved and some statistical trends on loan performance in Ugandan banking institutions have been presented. This has been addressed to include key statistics such as % of declining profits due to non-performing loans.	Pages 6-7 Pages 8-9

	2.3 Objective, Question/Hypothesis The overall study purpose is in line with the specific objectives and conceptual framework. ***2.4 Scope of the study*** The study scope is fairly written. Nonetheless, the time scope seems unrealistic and the content scope simply an indication of the topic. Indeed the study scope is not justified. **2.5 Conceptual framework** The conceptual framework has been presented with reasonable explanation. However, the explanation is not supported by appropriate citations.	No action taken The time scope has been adjusted to cover a three year period and other areas addressed to reflect the concerns. The conceptual framework has been re-written & citations provided.	Not applicable Page 10 Pages 12-13
3	**CHAPTER TWO - literature review** The literature review has been logically presented based on study objectives. However, most sources reviewed are so old and no clear literature gap has been identified. Finally, the discussions of the reviewed sources are rather weak.	The literature has adjusted as advised.	Pages 14-30
4	**CHAPTER THREE – methodology used** A number of aspects in the methodology are well presented. However, the research design of descriptive survey does not support the purpose of the study. Also, the explanation of the data collection methods and tools is far below expectations. Additionally, the validity not stated. Finally, the basis for interpreting results is not well articulated.	The research design has been changed to a cross-sectional research design since it best fits the study. Proper explanations have been offered to the data collection methods and tools. CVI has been added. Data analysis has been re-written to clearly bring out the basis of interpreting results.	Page 31 Pages 34-36 Page 37 Page 39
5	**CHAPTER FOUR – presentation, analysis and discussion of findings** The structure of the chapter is guided by the themes of	The graph for age of respondents has been	Page 43

	the study objectives. However, graph used to present the age of respondents is not well selected. Also, some information presented in some tables, like "valid percent", is not necessary. Additionally, the correlation analysis is not aligned to the study objectives. Finally, the discussion of the study results is simplistic.	changed. Valid percent, etc have been removed from the tables. The discussion has been improved.	 Page 44 Page 46-59
6	**CHAPTER FIVE – Conclusion, recommendations & Contribution** The chapter is logically presented. Also, the summary of the findings indicates the key findings. However, the recommendations don't trigger any policy insights.	Recommendations have been improved upon to trigger policy insights.	Pages 64-65
7	**References and Appendices** The reference list is quite comprehensive though they have not been uniformly presented.	The references have been improved upon.	Pages 67-73
8	**CORRECTION / REVISION** The following corrections should be made: i. Improve the abstract, don't paragraph and don't cite; ii. Write an original problem statement and support the statements therein with timely relevant evidence; iii. State a reasonable time scope that is in agreement with your study design; iv. Justify the content of the study and state it well; v. Explain the conceptual framework better.	All these have been addressed as per the earlier sections.	Throughout the thesis.

	vi. Discuss the contributions of other scholars the literature review; vii. Explain the gap in literature that your study addressed; viii. Write an appropriate study design; ix. Write an appropriate sampling technique instead of purposive sampling; x. Clearly indicate the validity scores of the study; xi. Use a better graph to present the age of the respondents xii. Remove redundant data (e.g valid percent) in the tables presenting background information of respondents; xiii. In the context of the study objectives, justify the use of correlation analysis; xiv. Make critical discussions of the study findings especially the regression analysis; xv. Generate logical conclusions; xvi. Include all citations in the final reference list; xvii. Introduce and conclude every chapter; xviii. Edit all the English mistakes in the dissertation; and xix. Present the references consistently as per the university guidelines.		

SN	COMMENTS BY INTERNAL EXAMINER	ACTION TAKEN	INDICATOR
1	**OVERALL STRUCTURE AND PRESENTATION** The items in the dissertation are in line with the University guidelines as far as the overall structure and presentation are concerned.	No action needed	Not applicable
2	**CHAPTER ONE: INTRODUCTION** **2.1 Background (conceptual, theoretical, contextual)** The background is well written. However, it is not according to the university research manual where students are expected to arrange the background in terms of historical, theoretical, contextual and conceptual perspective. Besides this, most of the literature is form old sources. **2.2 Problem statement** The problem statement is stated. However, some key statements are made with old supporting evidence. Besides this, the logic in the statements written to support the problem is hazy **2.3 Objectives, questions / Hypothesis** The overall study purpose is well harmonized to the specific objectives and questions.	The background has been adjusted, with the old sources replaced. However, the Masters research background doesn't have headers as suggested. This has been addressed. No action needed.	Pages 6-7 Pages 8-9 Not applicable

	2.4 Scope of the study The study scope, especially the time scope is stated in general terms and has not been justified. **2.5 Conceptual framework** The conceptual framework is drawn and well explained with supporting evidence. However, most of the parameters under the dependent variable are misplaced, therefore some adjustment is required.	The study scope has been improved upon. The conceptual framework has been adjusted accordingly.	Page 10 Page 12
3	**CHAPTER TWO - literature review** The literature review has been logically presented based on study objectives. However, a clear literature gap has not been explained. The candidate should avoid use of old sources of information unless where inevitable. Besides, the candidate hasn't shown any theory underpinning the study.	This has been readjusted accordingly, with a theory underpinning the study illustrated.	Pages 14-16
4	**CHAPTER THREE – methodology used** A number of items in the methodology have been presented well. However, the study design of descriptive analysis is not in tandem with the regression analysis in chapter four. There seems not to be clarity on how data will be analyzed. Finally, purposive sampling has not been applied well in a number of sample selection cases	This has been well addressed.	Pages 31-41
5	**CHAPTER FOUR – presentation, analysis and discussion of findings** The research findings have been logically presented based on the themes of the study objectives. Indeed the researcher	These have been addressed accordingly.	Pages 42-59

	integrates well results from the qualitative and quantitative analysis. However, the student has used Pearson correlation for all the three objectives which wasn't necessary. Furthermore, the interpretation of the multiple regression results is not clear.		
6	**CHAPTER FIVE – Conclusion, recommendations & Contribution** The chapter is well written though the contribution to knowledge indicated is not convincing.	The recommendations have been re-adjusted.	Pages 64-65

SN	COMMENTS BY VIVA VOCE PANNEL	ACTION TAKEN	INDICATOR
1	The statement of the problem is not clear.	The problem statement has been improved accordingly.	Pages 8-9
2	The literature review needs improvement.	This has been done.	Pages 14-32
3	Other areas of study need to be looked into.	This has been re-written.	Pages 67-68

WANALE NORAH NABUDO  **MR MASUBA MARTIN** 

Candidate's Name Signature Supervisor's Name Signature

Date: 7TH, OCTOBER, 2024 Date: 7TH, OCTOBER, 2024

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To MANAGER

BRAC UGANDA BANK LTD

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Dear Sir/Madam,

Re: Academic Research

Christian greetings!

We are honored to introduce to you Mr. Mrs./Miss. WANALE HORAH NABWO

Of Registration Number; S17/MUC/MBA/1022 pursuing a Masters'

Degree/Postgraduate Diploma / Bachelor's Degree

BUSINESS ADMINISTRATION

He/ she is required to carry out an academic research on the topic

INTEREST RATES AND LOAN PERFORMANCE IN BRAC UGANDA, BUDUDA BRANCH

and thereafter produce a well bound hard cover research report (**MAROON**) in color for undergraduate and three (**BLACK**)copies for Postgraduate students as a University requirement for the award of a degree/diploma in the academic discipline that he / she is pursuing.

We shall be grateful for the help you may offer to him or her accordingly.
Thank you.
Yours faithfully,

Henry Omache
Ag. Head of Department Business

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Date: 20th/07/2022

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Our Ref: BUBL
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REG: S17/MUC/MBA/002
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BRANCH MANAGER BUDUDA
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