



## CREDIT MONITORING AND LOAN PORTFOLIO PERFORMANCE AT DFCU BANK UGANDA LIMITED

**Richard Wemesa<sup>i</sup>**

Dr.,

Department of Education Management and Foundations,  
Maseno University,  
Kisumu, Kenya

Department of Applied Business Administration,  
Cornerstone University,  
Bweyogere, Kampala, Uganda

Department of Research & Consultancy,  
The Uganda Institute of Banking and Financial Services,  
Kampala, Uganda

Department of Management Sciences,  
King Ceasor University,  
Kampala, Uganda

Department of Business Administration,  
UNICAF University,  
Kampala, Uganda

### **Abstract:**

The study sought to examine the relationship between credit risk monitoring and loan portfolio performance in DFCU Bank. The study was guided by the following objectives: to examine the relationship between credit monitoring and the loan portfolio performance of DFCU Bank. A cross-sectional survey research design was used. The study predominantly employed a quantitative approach but also used a qualitative approach. The study population consisted of 140 participants from 15 branches of DFCU Bank located in Kampala. A sample size of 103 was selected using Morgan and Krejcie's Table (1970). A purposive sampling technique and simple random sampling were used to choose respondents. Quantitative data analysis mainly consisted of descriptive statistics (percentages) and inferential statistics (Pearson correlation, coefficient of determination). Content analysis was used to analyze qualitative data. Findings revealed that there is a significant relationship between credit monitoring and loan portfolio performance in DFCU Bank. It was concluded that the more credit risk management practices are provided in DFCU Bank, the better the loan portfolio performance. It was thus recommended that DFCU bank should therefore assess long term plans of loan applicants to identify future needs and risks of their businesses, the bank should also

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<sup>i</sup> Correspondence: email [richard.wemesa@gmail.com](mailto:richard.wemesa@gmail.com), [richie.wemesa@gmail.com](mailto:richie.wemesa@gmail.com), [rwemesa@kcu.ac.ug](mailto:rwemesa@kcu.ac.ug), [r.wemesa@uganda.unicaf.org](mailto:r.wemesa@uganda.unicaf.org), [rwemesa@cu.ac.ug](mailto:rwemesa@cu.ac.ug),

focus on assessment of the prevailing economic conditions facing the client's business, analyze clients' track record of bank loan repayment as these can affect client loan repayment hence leading to a better loan portfolio performance of DFCU Bank.

**JEL:** B26, E51, E58, G21

**Keywords:** credit monitoring, risk management, loan portfolio, performance

## 1. Introduction

Credit risk remains elevated and a key concern for financial stability (BOU Financial Stability Review Report, 2021), as it plays an essential role in determining the profitability of banks, since a more significant portion of their revenue accrues from the interest charged on loans. It is therefore important to put emphasis on credit risk management as this has an influence on loan portfolio performance (Serwadda, 2018). The lifeblood of each lending institution is its loan portfolio, and the success of the institution depends on how well that portfolio is managed (Derrick, Peterson and Premeschak, 1998).

Credit risk management in banks like DFCU comes into play as they influence the efficiency of a bank's risk management and are expected to significantly influence its loan portfolio (Geitangi, 2015). The researcher was motivated to undertake this study in DFCU Bank because it's one of the banks that has, over the past 56 years, supported industrialization and economic growth of Ugandan companies through the provision of the much-needed but often scarce and expensive long-term finance, yet continues to have challenges with loan portfolio performance (DFCU Annual Report, 2020). This study, therefore, sought to examine the influence of credit monitoring on loan portfolio performance at DFCU Bank.

### 1.1 Historical Background to the Study

Goddard *et al.* (2009) gave an account of the global financial crisis in Western Europe and global economic depression, which suppressed almost all big economies worldwide in the past centuries as still kept in many people's minds. When the US subprime mortgage crisis erupted in the summer of 2007, few people expected that it could affect the entire world economy so quickly and so drastically. At the start of the crisis, individual EU member states started to face highly uneven public borrowing constraints determined by many factors, the fiscal prudence past track record probably being the most important one. (Marek, 2009). There were many measures that were enacted by governments and central banks to deal with toxic assets and recapitalize through the injection of liquidity into the banking system. It was triggered by the United States financial sector that passed the Glass- Steagall Act of 1930 (Khambata, 1996), requiring that commercial banks only engage in banking activities (accepting deposits and making loans, as well as other fee-based services), whereas investment banks were limited to capital markets activities. One key reason for the collapse or near-collapse of the financial institutions is the badly functioning subprime mortgage lending to companies/people with bad and unreliable

credit. When the prices of houses used as securities for the loans slumped, those loans became non-performing loans or bad debts. (OECD 2008 and the Renegade Economist 2009; Goddard *et al.*, 2009).

In recent years, more and more globally active financial institutions in the US and Europe have been proactively engaged in LPM, rebalancing their loan asset portfolios while utilizing the credit market's functions to the full (Kraft & Jankov, 2016). In developing countries of Africa and some of Asia, lending has been the principal business activity for most financial institutions over the years, where the loan portfolio is typically the largest asset and the most predominant source of revenue (Carletti & Daltung, 2006). Nigerian banks suffered from the global credit crunch when they faced difficulties obtaining trade credit lines in the United States and in Europe. In August 2009, the Central Bank of Nigeria injected funds into the banking system when five leading Nigerian banks posted losses from non-performing loans due to excessive lending to the energy sector and bursting of the stock market bubble (Devarajan & Kasekende, 2011).

Therefore, effective management of a loan portfolio's loan risk in Africa requires that the board and management understand and control the bank's risk profile and its loan culture. To accomplish these, they must understand the portfolio's product mix, industry and geographic concentrations, average risk ratings, and other aggregate characteristics. They must be sure that the policies, processes, and practices implemented to control the risks of individual loans and portfolio segments are sound (Carletti & Daltung, 2006).

In Uganda, the protracted economic crisis, disruption from war and the weak legal system made the lending climate for the banks very difficult and undoubtedly made some contribution to the bad debts of Uganda Commercial Bank and the Cooperative Bank. The scale of this problem indicates that the primary cause was their lending practices rather than exogenous factors (Brownbridge, 1996).

There has also been continued deterioration of loan portfolio performance among financial institutions, which prompted the government to take several measures to improve their performance including the closure of some, like Greenland Bank, and the most recent being Crane Bank (Eriku, 2019). Loan loss in DFCU banks grew from Ugx.114.6 billion to Ugx.243.1 billion between June 2013 and June 2014. The sector's Nonperforming loans (NPLs) grew by USh.48.2 billion to reach USh.116 billion at the end of June 2014, thereby accounting for 22.8% of the total NPLs in the bank (Financial Stability Report, 2014). The above concerns suggest an important need for more empirical studies on the relationship between credit allocation, risk management and loan portfolio performance. It is therefore upon this background that the researcher seeks to examine the relationship between credit risk management on loan portfolio performance in DFCU Bank.

## **2. Theoretical Background**

The study was guided by the Modern Portfolio Theory by Harry Markowitz (1952). The Modern Portfolio theory deals with the selection of portfolios that maximize expected

returns consistent with the individual acceptable levels of risk. The theory provides a framework for specifying and measuring investment risk and to develop relationships between risk and expected returns. Its main basic assumption is that investors often want to maximize returns from their investments for a given level of risk. The full spectrum of investments must be considered because the returns from all these investments interact; hence, the relationship between the returns for assets in the portfolio is important (Reilly & Brown, 2011).

The basic portfolio model was developed by Harry Markowitz in the 1950s and early 1960s. Markowitz is considered the father of modern portfolio theory since he originated the portfolio model that underlies modern portfolio theory. He derived the expected rate of return for a portfolio of assets and the expected risk measure. Markowitz established that under reasonable assumptions, the variance (or standard deviation) of the expected rate of return was a meaningful measure of portfolio risk. From his model, the expected rate of return of a portfolio is the weighted average of the expected return for the individual assets in the portfolio.

Modern Portfolio Theory shows that an investor can construct a portfolio of multiple assets that will maximize returns for a given level of risk. Likewise, given a desired level of expected return, an investor can construct a portfolio with the lowest possible risk. Based on statistical measures such as variance and correlation, an individual investment's return is less important than how the investment behaves in the context of the entire portfolio. Also, an assumption in Markowitz's Portfolio Theory is that all investors will have the same expectations and make the same choices given a particular set of circumstances. The assumption of homogeneous expectations states that all investors will have the same expectations regarding inputs used to develop efficient portfolios, including asset returns, variances and covariances (Okechukwu & Egbo, 2017). The theory was therefore invaluable in the case of DFCU Bank to try to understand the methodology behind risk specification and measurement, and generally the rationale behind credit risk management and its relationship with loan performance. This is because it presents a correlation between risk and expected returns. The theory, therefore, advocates for due diligence in terms of risk assessment if the bank is going to reduce the occurrence of nonperforming loans.

### **3. Conceptual Background to the Study**

Nikolaidou and Vogiazas (2001) define credit risk management as the combination of coordinated tasks and activities for controlling and directing risks confronted by an organization through the incorporation of key risk management tactics and processes in relation to the organization's objectives. Ross *et al.* (2008) contend that risk management practices also ensure that financial institutions must have a strong and rational framework for decision making by which a firm's objectives can be attained (Ross *et al.*, 2008). García *et al.* (2013), on the other hand, noted that effective credit risk management practices have never been successful in eliminating the human element in making decisions about controlling risk.

Loan performance refers to the ratio of non-performing advances (loans) to the total portfolio. A non-performing advance/loan is that part of a loan whereby interest and principal instalments are still outstanding for at least six months after they are due (Bank of Uganda, 1992).

In this study, credit risk management is divided into three components, namely: The Client appraisal component, credit risk control measures and credit collection policies. Client appraisal in this context refers to character, capacity (financial position of the borrower), collateral, capital and condition. Credit risk control measures will be looked at based on risk-based pricing, covenants (contracts), credit insurance, default rate and tightening and diversification. Credit collection policies will be concerned with accelerating collections from slow payers and lessening awful obligation misfortunes. The components of risk management, if properly applied in a financial institution, will lead to loan performance. Loan performance has indicators like loan recovery/collection rate, loan loss rate, arrears rate, portfolio at risk, client goal attainment and client affordability to repay/service.

#### **4. Statement of the Problem**

DFCU has put in place credit risk regulations and systems to guide the loan officers, like steps in carrying out proper credit appraisal, client monitoring and loan recovery steps, among others, with the aim of reducing the bank's credit risk as a whole (DFCU Bank Report, 2019). Despite the rigorous credit assessment process in place that DFCU uses, like proof that customers do not have other credit obligations, analysis of their account performance, sustainability of their income levels, security and ability to pay (International Credit Manual, 2003), the bank is faced with poor management of its loan portfolio as noted in Credit Reference Bureau Report (2012). The bank appears to have failed in achieving its planned loan portfolio performance, thus causing failure in recovery of loaned money despite having policies like collateralization of loans, a loan tracking system and a debt recovery unit. DFCU non-performing loans have increased from shs.35.6 billion in 2016 to shs.62.2 billion in 2017, and the bad loans written off increased from shs.11.2 billion in 2016 to shs.18 billion in 2017 (DFCU Bank Report, 2017). There is an increase in impairment losses in loans and advances in DFCU. The rate of growth of non-performing Assets (NPA) and foreclosure has steadily increased over the years. The failure to manage credit risk well in Uganda over the years has created loan portfolio gaps (DFCU Bank report, 2019). It is evident that DFCU bank loan and corporate lending constituted about 50% of the total loan book; however, the bank continues to face, on average, between 20-40% bad debts written off yearly, the loan loss rate increased from -0.10% to 2.81%, and the number of outstanding loans increased from \$18,795 to \$24,479. Whether this is due to failure to recover the loaned money is the subject of debate in this study. Hence, if this situation continues, DFCU Bank is more likely to lose its reputation or close down, thereby causing discontent among its clients. This therefore raises concern, hence prompting an investigation into the relationship between "credit risk management" and "loan portfolio performance" in DFCU bank.

#### 4.1 Purpose of the Study

The purpose of the study is to examine the relationship between credit monitoring and loan portfolio performance in DFCU Bank Uganda Limited.

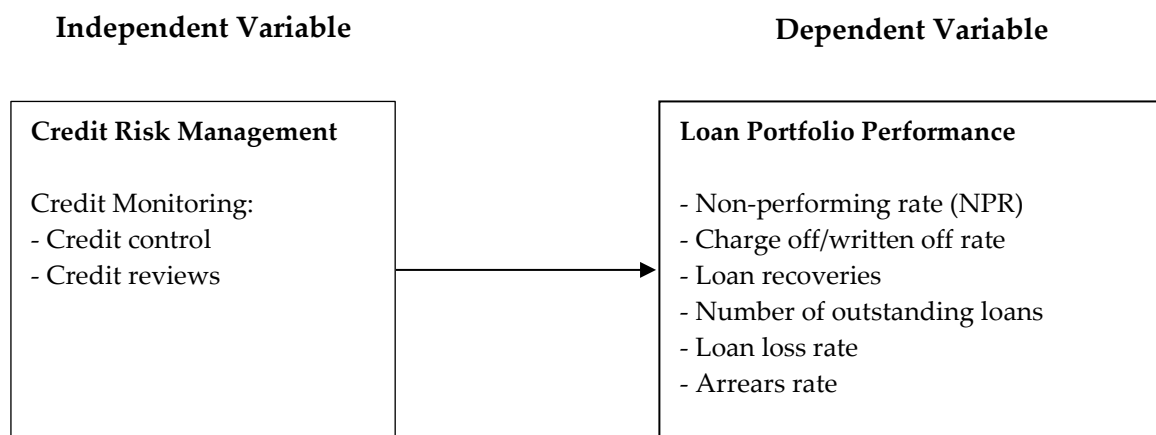
#### 4.2 Objective of the Study

To examine the relationship between credit monitoring and loan portfolio performance in DFCU Bank Uganda Limited.

#### 4.3 Hypothesis of the Study

**H01:** Credit monitoring has a significant positive influence on loan portfolio performance at DFCU Bank.

**Figure 1.1:** A conceptual framework illustrating the relationship between credit risk monitoring and loan portfolio performance



**Source:** Adapted from McNaughton (1996) and modified by the researcher.

The independent variable is credit risk management, and the dependent variable is loan portfolio performance. Credit risk management refers to credit monitoring policies. Credit monitoring was measured in terms of credit control and coordination, and credit reviews.

#### 4.4 Significance of the Study

This study may contribute to existing knowledge on how to institute and implement a credit risk management process to strengthen loan performance. The results may also be insightful for the policy makers by helping in the formulation of a risk management policy for several financial institutions. It may also broaden the researcher's understanding of credit risk management and loan performance.

This study may also be resourceful to academicians, the management of DFCU Bank and other such institutions to develop a concrete and definite understanding of the role of credit risk management on loan portfolio performance.

#### **4.5 Justification of the Study**

This study is justified based on the following grounds.

Most of the studies done by several scholars have focused on loan portfolio from a perspective of other financial institutions and also the role of credit in the provision of financial services, which is more of client focused than institutional (Balagadde,2018). This means that the risks financial service providers like DFCU face while providing these financial services to customers are not given much attention.

DFCU bank, as a financial services provider, has had several loans written off in the past years and continues to write off more loans every year in the process of serving loans to customers. (DFCU Annual Report, 2018). This issue may be related to the credit risk management of the bank. This, therefore, has prompted the researcher to carry out the study on credit risk management and loan portfolio performance of financial institutions, most especially in DFCU Bank.

### **5. Literature Review**

#### **5.1 Credit Monitoring and Loan Performance**

Kagoyire and Shukla (2016) analyzed the effect of credit practices on the financial performance of commercial banks in Rwanda using a descriptive survey design, and the target population of the study consisted of 57 employees of Equity Bank in the credit department. Primary data was collected using questionnaires, which were administered and analyzed using descriptive and inferential statistics. The study found that client appraisal, credit risk control and collection policy had an effect on the financial performance of Equity Bank. The study established that there was a strong relationship between financial performance and client appraisal, credit risk control and collection policy. The study established that client appraisal, credit risk control and collection policy significantly influence financial performance. The collection policy was found to have had a higher effect on financial performance, and a stringent policy was more effective in debt recovery than a lenient policy. Since the study by Kagoyire *et al.* (2016) was only descriptive, they must have omitted qualitative and in-depth feedback, which ought to have generated explanations behind the given statistical expressions. This methodological gap will be addressed by also collecting respondents' opinions in interviews to generate triangulated findings.

Lending has been and still is the mainstay of financial institutions, and this is truer to emerging economies of developing countries, where capital markets are not yet well developed. In most of the transition economies, lending activities have been a controversial and difficult matter (Basel, 2010). This is because business firms, on one hand, are complaining about a lack of credit and the excessively high standards set by financial institutions, while financial institutions, on the other hand, have suffered large losses on bad loans (Richard, 2006). It has been found out that in order to minimize loan losses and credit risk, it is essential for financial institutions to have an effective credit risk management system in place (Basel, 2010). An effective system that ensures repayment of loans by borrowers is critical in dealing with asymmetric information

problems and in reducing the level of loan losses, thus ensuring the long-term success of any banking organization. Credit risk management is essential in optimizing the performance of financial institutions

Nagarajan (2011), in his study of credit risk management practices for microfinance institutions in Mozambique, found that risk management is a dynamic process that could ideally be developed during normal times and tested in the wake of risk. The study concluded that financial institutions needed to minimize risk related losses through diligent management of portfolio and cash-flow by building a robust institutional infrastructure with skilled human resources and inculcating client discipline, through effective coordination of stakeholders.

Collection efforts refer to the supervision of the loan. This can be done through letters, telephone calls and representatives. Collection effort is aimed at accelerating collection from payers and reducing debts. Prompt collection aims at increasing turnover while keeping costs low and bad debts within limits. The primary objective of a financial institution in lending to customers for commercial and consumption purposes is to make profitable loans with maximum risk (Kasekende, 2015). Loan officers should lend to industries or markets in which they have expertise and take into consideration loan volume and loan quality in relation to liquidity requirements, capital constraints and rate of return. The credit process includes credit appraisal and approval, credit execution and administration, documentation and monitoring operations. The execution of each procedure is through the financial institution's written loan policy as determined by the Board of Directors. A loan policy formalizes lending guidelines, preferred loan qualities and establishes procedures for granting, documenting and reviewing loans. In evaluating the creditworthiness/ risk associated with a customer, financial institutions use the 5C, namely character, capacity, capital, collateral and condition.

Credit extending organizations particularly, have been taking stringent measures to mitigate any forthcoming financial losses caused by mismanagement in loan allocations and credit recoveries (Nikolaidou & Vogiaza, 2001). In fact, previous studies indicate that such institutions need to have strong and effective credit risk management policies for ensuring consistent loan recoveries from clients (Frank, Simon, & Josephine, 2014). Therefore, if loans are not well-recovered, it may result in losses of high level and even the failure of financial institutions (Chijoriga, 2011).

Accordingly, DFCU Bank endeavours to have a sound credit risk management system that clearly outlines the scope and allocation of the bank's credit facilities, as well as taking into account the manner in which the credit portfolio is managed, which is how loans are originated, appraised, supervised and collected (Greuning & Bratanovic, 2003). Derban *et al.* (2005) recommended that borrowers should be screened, especially by banking institutions, in the form of a credit assessment.

Fatemi (2000) points out that a typical risk analysis process consists of two components: financial analysis (quantitative analysis) and qualitative analysis. Financial analysis consists of analysis of financial data available for the credit applicant; the analysis of annual financial statements has a central position in this context. Mostly financial analysis is carried out by credit analysts; there should be a general guideline

stipulating that the analysis is confirmed by the person in charge of the organizational unit supplying the module for credit analysis when this module is handed over to the credit officer managing the exposure (Eldelshain, 2005).

However, according to Derban *et al.* (2005), borrowers' attributes assessed through qualitative models can be assigned numbers with the sum of the values compared to a threshold. This technique minimizes processing costs, reduces subjective judgments and possible biases. The rating systems will be important if it indicates changes in the expected level of credit loan loss.

Therefore, Derban *et al.* (2005) concluded that quantitative models make it possible to numerically establish which factors are important in explaining default risk, evaluating the relative degree of importance of the factors, improving the pricing of default risk, screening out bad loan applicants and calculating any reserve needed to meet expected future loan losses.

Credit extending institutions need monitoring systems to clearly and quickly highlight repayment problems so that loan officers and their supervisors can focus on delinquency/default before it gets out of hand (Warue, 2012). However, even when stringent loan monitoring practices are implemented, the performance of loans might not improve. Although DFCU Bank has tried to follow strict procedures and regulations in administering credit, there is an increase in bad debts in DFCU, ultimately affecting profitability. Nakayiza (2013), in her study of 'Interest rates and Loan performance in commercial banks', recommends the need for adequate loan review policies and strict enforcement of penalties to credit officers who issue credit without following the credit policies of the bank. Therefore, this study seeks to add to her findings by ascertaining that if such strict enforcement (monitoring) practices are followed, it shall help financial institutions improve their loan performance.

## **6. Methodology**

### **6.1 Research Design**

A cross-sectional survey design was adopted for this study because it involves collecting data at a particular point in time, which is useful in obtaining facts and perceptions of respondents (Saunders *et al.*, 2006). This design helped the researcher to collect a large amount of data in a short period of time, since it observed a representative subset at one specific point in time. Therefore, any problems that could arise from recurrent mistakes in data collection instruments were minimized as it didn't suffer from the unavailability of the sample used in previous observation, as compared to a longitudinal study (Sekaran, 2003). The study was also both descriptive and analytical in nature. The descriptive approach focused on the quantitative aspect of the study, which involved obtaining information about the relevant aspects of the phenomena of interest to the researcher (Creswell, 2009). The analytical approach focused on the qualitative aspect of the study to determine in depth inquiry into the existing situation or phenomenon under study based on factual findings (Kothari, 2004).

## 6.2 Study Population and Sample Frame

The study population in this study referred to the respondents who were going to be part of this research. This was derived from DFCU Bank Uganda staff from fifteen branches in Kampala, including the Head Office branch, Impala branch, William Street branch, Kampala Rd, Ntinda, Bugolobi, Bwaise, Nateete, Kawempe, Kikuubo, Kireka, Nakivubo, Wilson Lane, Makerere and Market Street Branches.

This is because these are the branches with the majority of clients, and their loan portfolios are also not so good. The study targeted a population of 140 respondents who work directly in the areas related to this study, who included: senior management team, supervisors and junior employees (DFCU Annual Report,2019). The staff at the managerial level were chosen because they manage the interventions put in place to curb credit risk and ensure the bank’s loan performance is not dismal, and hence enhance revenues at the bank. The supervisory staff were selected since they have immediate responsibility to ensure that the junior staff adheres to the bank’s policies as far as credit risk management is concerned, in order to have the loan portfolios performing well.

**Table 1:** Population, Sample frame and Sampling Techniques

Category of Respondents	Population Size	Sample size	Sampling technique
Management staff	25	18	Purposive sampling
Supervisory staff	35	25	Purposive sampling
Junior employees	80	60	Simple random sampling
<b>Total</b>	<b>140</b>	<b>103</b>	

Source: DFCU Bank primary data (2024).

## 6.3 Sampling Techniques and Procedure

From Table 1 above, it can be deduced that a blend of purposive and simple random sampling techniques was used. The management team included the head of departments. Supervisors included regional managers and Branch managers. Junior staff included Personal bankers and Business bankers.

## 6.4 Simple Random Sampling

A number of sampling techniques were used to select the respondents to the study. A simple random sampling technique was used to select the junior staff employees. A simple random sampling technique was basically used to sample junior employees because it ensures the least bias and generalization of research findings across the entire study population (Amin, 2005).

## 6.5 Purposive Sampling

Purposive sampling was also used to select the management and supervisory staff. Mugenda and Mugenda (1999), purposive sampling is restricted to specific types of people who possess the desired information, and it enables the researcher to pick a sample based on their own interest, knowledge and judgment. According to Kothari (2004), the purposive sampling technique is a type of non-probability sampling that is most effective when one needs to study a certain cultural domain with knowledgeable

experts within. The technique contributes to its efficiency and stays robust even when tested against random probability sampling.

### 6.6 Data Collection Methods

The data collection methods used in this study were: the questionnaire survey, online interview on Microsoft teams and documentary review to collect the primary and secondary data.

### 6.7 Data Analysis and Presentation

The data analysis process involved identifying patterns, consistencies and relationships in the questionnaire and interview guide (qualitative data). Data analysis, therefore, involved qualitative and quantitative analysis.

#### 6.7.1 Quantitative Data Analysis

The researcher used the Statistical Package for Social Sciences (SPSS), which entailed both descriptive and inferential statistics. Descriptive statistics involved having measurements such as frequencies, percentages, and standard deviation, among others. Inferential statistics, on the other hand, involved the use of correlation analysis using a correlation coefficient. According to Sekaran (2003), a correlational study is most appropriately conducted in the natural environment of an organization with minimum interference by the researcher and no manipulation.

#### 6.7.2 Qualitative Data Analysis

The researcher analysed this data using content thematic analysis, whereby responses from key informants were grouped into recurrent issues. This involved a thorough review of the scripts, looking for similarities and differences to identify themes and develop categories according to the study objectives. The interplay between the findings solicited by both qualitative and quantitative data helped the researcher to draw conclusions and subsequently forward recommendations.

## 7. Results and Discussion

**Table 2:** Showing the Response Rate

Category	Frequency	Percent
Questionnaires Distributed	103	100%
Questionnaires Returned	89	86%

Source: Primary data.

The table above indicates that out of the 103 respondents who were set for the study and the questionnaires plus interviews scheduled, 89 were able to respond to the study. The remaining 14 of the respondents didn't send back the questionnaire; some members of the management team couldn't be reached because of their schedules. However, according to Amin (2005), 70% of the respondents are enough to represent the sample size set for the study. This means that 86% is very sufficient for this study. The response

rate was high due to the researcher's efforts in the collection of the data, administering the questionnaires and creating a good rapport with the staff, making follow-ups.

### 7.1 Findings on credit monitoring and loan portfolio performance at DFCU Bank

The objective of the study was to assess the relationship between credit monitoring and loan portfolio performance at DFCU Bank. The respondents were introduced to different statements to have their say. Their responses were computed by making an aggregate of responses given by the respondents to the 8 items and 5-point Likert scale (5 = Strongly agree, 4 = Agree, 3 = Not sure, 2 = Disagree 1 = Strongly disagree)

The responses were categorized in percentages, mean and standard deviation as shown below.

**Table 3:** Descriptive Statistics for Credit Monitoring Practices

Statement		SD	D	N	A	SA	Mean	SD
The Loan Department periodically meets with loan clients for further advice.	Freq	0	5	16	63	5	3.76	.640
	%	0	5.6	18.0	70.8	5.6		
DFCU periodically gathers information about loan clients.	Freq	2	1	9	67	10	3.94	.713
	%	2.2	1.1	10.1	75.3	11.2		
DFCU debtors are visited regularly to assess the financial performance of their businesses.	Freq	0	3	14	65	7	3.92	.678
	%	0	3.4	15.7	73.0	7.9		
The loan department holds recovery meetings regularly with the clients	Freq	1	2	10	69	7	3.89	.611
	%	1.1	2.2	11.2	77.5	7.9		
The loan department officials periodically send notifications to clients of the outstanding amount.	Freq	0	1	11	41	36	4.26	.716
	%	0	1.1	12.4	46.1	40.4		
Credit supervisors sometimes do not review portfolio management reports of the branches, which makes monitoring work difficult.	Freq	1	5	8	55	19	1.1	.826
	%	1.1	5.6	9.0	61.8	21.3		
Compliance of the approval terms and conditions is strictly enforced and monitored.	Freq	1	8	15	54	11	3.74	.833
	%	1.1	9.0	16.9	60.7	12.4		
Regular reviews are done on collection policies to improve the state of credit management.	Freq	1	8	13	56	11	3.76	.826
	%	1.1	9.0	14.6	62.9	12.4		

The results in Table 8 above revealed majority of the means for most of the items were above 3.5. Based on the Likert scale of 1-strongly disagree to 5-strongly agree, any data mean above 3.5 indicates the existence of the variable under study. Responses from the respondents on credit monitoring practices indicate that DFCU Bank carries out credit monitoring of its loan clients. The majority of the respondents agreed to the fact that the loan department periodically met loan clients for advice, DFCU periodically gathers information about loan clients, loan clients are regularly visited to assess the financial year performance, and the loan department regularly holds recovery meetings with the clients. The findings from the questionnaire seemed to be consistent with those of the key informants. A number of them indicated that the loan department keeps in touch with debtors after loan acquisition by meeting with them periodically to further discuss how they can better affect their payments on time. One of the DFCU Bank management staff had this to say about credit monitoring practices.

One respondent noted:

*“The loan department regularly meets with debtors who are having challenges with payment of their loans to further discuss the challenges they are facing and how best loan payments can be made despite the challenges they have. Sometimes we restructure clients’ loans depending on how we have assessed the challenges they are being faced with.”*

It is therefore clear that credit monitoring is instrumental to DFCU Bank's loan portfolio performance.

## 7.2 Correlation results on credit monitoring to DFCU Bank

The hypothesis tested stated, “Credit monitoring has a significant positive influence on loan portfolio performance at DFCU Bank. A Pearson Correlation Coefficient (r) was used to test this hypothesis and is shown in the table below.

**Table 4: Correlation Results on Credit Monitoring Practices**

		<b>Monitoring practice</b>	<b>Loan portfolio performance</b>
Monitoring practice	Pearson Correlation	1	.252*
	Sig. (2-tailed)		.017
	N	89	89
Loan portfolio performance	Pearson Correlation	.252*	1
	Sig. (2-tailed)	.017	
	N	89	89

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

The findings show that there was a positive correlation,  $r = .252$ , between credit monitoring and loan portfolio performance at DFCU Bank. These findings were also subjected to a test of significance ( $p$ ), and it showed that the significance of the correlation  $p = .017$ , which is less than the recommended critical significance of 0.05, the relationship is significant. This, therefore, means that the hypothesis “Credit monitoring has a significant positive influence on loan portfolio performance at DFCU Bank” was considered, and the null was rejected. This implies that the more credit monitoring is done, the better the loan performance of DFCU Bank.

## 8. Recommendations

The study recommends that DFCU Bank should put more emphasis on credit risk management Practices. This is because it has a great influence on the loan portfolio performance of the bank. The bank should therefore assess the long-term plans of loan applicants to identify future needs and risks of their businesses

The bank should also focus on assessment of the prevailing economic conditions facing the client’s business, and analyse the bank should also analyze clients’ track record of bank loan repayment, as these can affect client loan repayment.

The study also recommends that banks should focus on credit collection policies, as this has resulted in the reduction of default rates among the bank clients.

## 9. Conclusion

The objective of the study was to examine the relationship between credit monitoring and loan portfolio performance at DFCU Bank. The study revealed a coefficient of .252 between credit monitoring and loan portfolio performance at DFCU Bank, which was significant at .017 at a set level of 0.05. This means that credit monitoring carried out by DFCU Bank staff had a positive and significant influence on loan portfolio performance. The null hypothesis (H<sub>0</sub>) that there is no significant relationship between credit monitoring and loan portfolio performance at DFCU Bank was accordingly rejected, and the alternative hypothesis (H<sub>1</sub>) was accepted that there is a significant positive relationship between credit monitoring and loan portfolio performance at DFCU Bank.

### 9.1 Discussion of Study Findings

The findings of the study have been discussed as per the objectives of the study, as shown below.

### 9.2 Limitations of the Study

There was difficulty in retrieving all questionnaires on time, as these were emailed and/or sent via WhatsApp to potential respondents who needed an internet connection to submit their responses online; the researcher had to send constant email reminders to respondents to ensure the questionnaires were submitted.

Secondly, the respondents, especially the management team, were afraid to provide information, given the sensitivity of the bank's information, and so some of them did not provide information on all the research items.

Also, the banking sector is very demanding, so some respondents were too busy to attend our interviews and complete our questionnaires, which delayed the data collection process. The researcher therefore had to send reminders to the respondents to attend the study at the most convenient time for the respondents. It is unethical to make scientific conclusions based on attitudinal and behavioral results of a one-year study.

Given that data were to be collected at a single point in time, the researcher might have collected much narrower, superficial information, which eventually made it irrational to provide an elaborate account of human perceptions.

### 9.3 Areas for Further Study

This study examined the influence of credit risk management practices on loan portfolio performance at DFCU Bank, Uganda. The researcher recommends that a further study be carried out to determine the relationship between credit risk management and Loan portfolio performance in other commercial banks and microfinance institutions to get a broader perspective in other similar settings.

The study focused on DFCU Bank branches within Kampala, which may not be very conclusive. A further study may be replicated by adding more DFCU bank branches countrywide to get a better picture and understanding of the influence of credit risk management practices on the loan portfolio performance of DFCU Bank at large.

The study also recommends that a further study be carried out, looking at other aspects, like the economic challenges, for instance, the current crisis posed by the coronavirus pandemic (COVID-19) on the loan portfolio performance of banks, because some of these challenges go way beyond the risk management practices put in place by financial institutions.

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### **Conflict of Interest Statement**

The authors declare no conflicts of interest.

### **About the Author**

Dr. Richard Wemesa, he is a senior researcher at Maseno University, Kisumu, Kenya. He earned a PhD in Planning and Economics of Education. His current research areas focus on Parametric Analysis, Econometric Modelling and Analysis, Applied Business Modelling, Planning and Economic Applications. He is an active member of ResearchGate.

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