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An Assessment of the Contribution of Individual Borrowers Credit Analysis to the Management of Loan Default Rates in Financial Institutions: A Case Study of DFCU Group Ltd.

This research considered an assessment of the contribution of borrower's credit analysis to the management of loan default rates in financial institutions with a case study of DFCU Bank Ltd. Despite the credit analysis by banks, clients fail to fulfil their credit obligations thereby increasing the credit risk of the financial institution by defaulting on payments. The research was conducted in selected DFCU branches in Kampala where the researcher examined the borrower credit analysis methods used by DFCU Bank and their contribution towards loan default management. Bank credit committees conduct analyses through which loan applications are approved or rejected. The credit score determines the client's credit worthiness by understanding character and establishing their capacity to pay loans, the nature and value of collateral involved and the general economic conditions before credit decisions are made. The client's credit history was pivotal in determining their creditworthiness hence reducing the credit risk exposure of the bank. The credit history is contained on a financial card which Bank of Uganda through the Credit Reference Bureau has identified as an effective way of fighting loan disbursement irregularities in the sector. A cross sectional survey design provided an in-depth study of the client screening elements that determine client credit worthiness where both qualitative and quantitative methods were used for data collection. A stratified sample of seventy two respondents from Kikuubo, Owino and Market Street, representing seventy five percent of the staff in DFCU bank in Kampala was selected. Questionnaires, interviews, and informal discussions were administered to a purposive sample of staff in the credit department. The researcher noted that the credit history of clients was pivotal in determining their creditworthiness hence reducing the credit risk exposure of the financial institution.

Key Words: Credit, Loan, Financial, Bank