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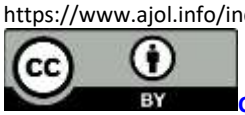

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Original Research

EFFECT OF INTEREST RATE ON LOAN PERFORMANCE A CASE STUDY OF BANK OF KIGALI/RUBAVU BRANCHES (2022-2024)

UWAMAHORO Thadee
Department of Finance, Kigali Independent University

Email: uwathaddee11@gmail.com

ABSTRACT

This study assessed the impact of interest rates on loan performance in financial institutions, with a particular focus on the Bank of Kigali (BK), Rubavu Branches. Interest rates played a crucial role in determining loan repayment behavior, delinquency levels, and overall financial performance of banks. The background highlighted how non-performing loans (NPLs) remained a significant risk to financial stability, often leading to institutional crises when not well managed. Despite measures to regulate lending costs, such as Kenya's experience with reduced loan interest rates, uncertainty persisted regarding their effect on loan repayment. The study specifically sought to (i) examine the relationship between BK's interest rates and clients' loan repayment performance, (ii) assess how changes in BK's interest rates influence loan default and delinquency rates, and (iii) analyze clients' perception of BK's interest rate policies and their impact on repayment behavior. Using a case study approach at BK Rubavu Branches, the research covered the period 2022–2024 and employed both qualitative and quantitative methods to collect and analyze data. Findings from this study were expected to enrich academic knowledge, guide future research, and provide practical insights for BK management in improving loan portfolio performance. Additionally, the results will benefit ULK students and researchers in the field of finance, while serving as a reference point for further studies on the influence of interest rate management on loan performance. The study recommends that commercial banks should partner with credit reference bureau in ensuring that information is communicated and shared on the loan defaulters in all financial institutions in Rwanda and this will minimize the loans default rate. Debt collectors should be sought from all corners and enlightened on the need to ensure collection is done on time to avoid bank and financial institutions losses.

Keywords*:* Financial Institutions, Interest Rate, Loans, Loan Performance, Debt.

INTRODUCTION

According to Vogiazas and Nikolaidou (2011), the steadiness of the financial sector has become the basis of most macroeconomics policies owing to the recent global financial crisis. Loans are a part of the assets of a commercial institution since they are meant to earn interest in the course of time (Kalani, 2009). This, however, is not always the case. Some loans do not perform as expected of them due to poor repayment rate and are thus termed non-performing loans (NPLs). Waweru and Kalani (2009), aver that crisis do not occur without warning; the best warning signs of financial crises are intermediaries for the vulnerability of the banking and corporate segment.

In the utilization of money, the lender normally charges a rate called interest rate (Wanjau, 2011). The rate of interest is normally charged as a percentage of the amount of cash advanced which is normally referred to as principal. In general, interest rates ascend in the midst of rise in prices, more noteworthy interest for loans and advances, supply of money, or because of higher saving prerequisites for banks. An ascent in rates of interest has a tendency to decrease business movement since credit turns out to be more costly and investors get improved bank deposits returns or returns on the bonds recently issued than from stocks purchase.

Most business banks giving loans is the main business activity. The credit portfolio is ordinarily the biggest resource and the prevailing wellspring of income. Accordingly, loans are the best wellsprings of risk to a bank's well-being and determinants of performance. According to the comptroller's handbook (1998), the bank's interest risk level credited from the loaning exercises depends mostly on the organization of its advance portfolio and how much the terms of its advances (e.g., development, structure rate, and implanted alternatives) may render the income streams to the rate of interests which are varying.

Viable managing of the combination of different loans and work of advances from the bank is the most general mainstream of any bank for a sound and best ever achievement in terms of profitability. Loan portfolio administration is the procedure by which risks that are inalienable in the credit procedure are overseen and maintained. Good combinations of different loans administration have concentrated the vast majority of their effort on prudently supporting credits and carefully checking loan reimbursements execution. All banks need fundamental advance portfolio administration standards set up in some form and loan reimbursement plan well kept. This incorporates deciding if the risks related with the bank's loaning exercises are accurately distinguished and properly imparted to senior administration and the governing body, and, when essential, regardless of whether suitable corrective move is made (Comptroller's handbook, 1998)

The main and only one of the commercial banks of business is to give out loans and their main contributor to the credit risks, that is, the vulnerability related with borrowers' reimbursement of these loans, and thus the borrower winds up paying more interest over the long term. A loan which has not been paid for ninety days or more may be characterized as a non-performing loan (NPL) (Greenidge & Grosvenor, 2010). Such kind of credit loans influence the execution of loan portfolio of the bank. For powerful loan portfolio execution banks should focus on a few elements while giving loans with a specific end goal to abridge the level of disabled loans (Khemraj and Pasha, 2009). In particular, business banks need to

consider the universal aggressiveness of the local economy since this may debilitate the capacity of borrowers frame the key fare arranged areas to reimburse their loans which thus would bring about higher nonperforming loans. These loaning establishments ought to likewise consider the execution of the genuine economy while broadening credit advanced to the reality that loan misconducts are probably going to be higher amid times of down turns in the economy. Banks ought to always survey the interest rates on loans since loan wrongdoings are higher for banks which increment their genuine interest rates.

The contribution of real interest rates on loan reimbursements is broadly reported in the writing (Pasha & Khemraj, 2009). A few investigations reports that real interest rate which is high is emphatically identified with this variable i.e. non reimbursement of loan. Utilizing a pseudo board-based model for a few Sub-Saharan African nations. Fofack (2005) discovers prove that economic development, genuine conversion scale thankfulness, the genuine interest rate, net interest edges, and between bank loans are huge determinants of loan reimbursement in these nations. According to Fofack there is solid relationship between nonperforming loans and macroeconomic elements which are in a nature which is not diversified in some of the economies in Africa.

According to the report by UNDP (2005) Kenya commercial banking sector is full of loan portfolios which are poor and evaluated at 36% of the total given out loans which are performing. Business banking sectors have higher rates of insider loaning and grouping of credit contrasted with their aggregate credit portfolios. This has brought about an expansive offer of low reimbursement rates and ensuing failures.

STATEMENT OF THE PROBLEM

Loan payment ability is normally the driver of the bank and other financial institutions' financial performance. The loan repayment capabilities are the ones that contribute to the profit margin size in every single transaction between the bank/financial institution and its clients. Despite all this, there are several stated cases of high loan repayment defaults in commercial banks in Kenya (Wanjau, 2011).

It is acknowledged that the amount or level of non-performing loans (NPLs) is frequently connected with bank failures and financial crisis in both third world and developed nations (Caprio and Klingebiel, 2002). Actually, there is enough proof that the financial/banking crises in Kenya were preceded by high nonperforming loans (Warue, 2013). When individuals loaned fail to pay the principal amount and interests facilities advanced to them, the institutions or banks concerned will be adversely impacted. If this happens, then, there will be less finances to run its normal businesses' and also to advance as loan facilities to other borrowers who has potential. If the effect of non-repayment continues to persist for long, the banks will have very huge bad debts; an encounter that would result to generally workforce being cut and branches closure as a means of cutting on costs. These may also result to the stall in its market expansion and ultimately collapse of the bank (Atieno, 2012).

The banks and other financial institutions plays a significant role in enhancing loan accessibility and other financial services especially to the poor and persons with low-

incomes. This indicates that any constraints affecting these banks and financial institutions are more likely to have a far-reaching effects on the households and the whole economy.

In Kenya we have witnessed the cost of loans reduced to 14% in August 24, 2016 from overwhelming 18%. It's not clear the impact of such reduction on repayment of loans in commercial banks in Kenya (Njoroge, 2016). A study by Samuelson (2009) demonstrated that when interest rate raises it consequently influences the borrowers but does not influence the bank's execution. The performance of the bank will not be affected by high interest rate but the individual borrowers will try to tolerate the effects of high rate of interest. This is because rate of interest going up will force the commercial banks to charge more on loans advanced than the arrival it pays to investors.

Hence, in Bank of Kigali, the issue of interest rate management has a profound implication both at the micro and macro level. When interest rate is allocated poorly it raises costs to successful borrowers, erodes the fund, and reduces banks flexibility in redirecting towards alternative activities. The problem of interest rate fluctuations barrier, which is resulted from poor interest rate management, reduces the lending capacity of a bank. It also denies new applicants' access to competitive loan as the bank's cash flow management problems augment in direct proportion to the increasing default problem.

OBJECTIVES OF THE STUDY

General Objective

The general objective of this work was to assess the impact of interest rates on loan performance in financial institution.

Specific Objectives

Specifically, this study aimed to achieve the following objectives:

- To examine the relationship between BK's interest rate and clients loan repayment performance.
- To assess how changes in BK interest rate influence loan default and delinquency rate.
- To analyze client's perception of BK's interest rate policies and their effect on repayment behavior.

LITERATURE REVIEW

Theoretical Framework: The Theory of Credit Market

This theory hypothesises that information which is not symmetrical causes for poor performance of financial markets the nations which are developing. The imperfect information releases two types of results to be specific; adverse selection and moral hazard. Two major highlights of the theory can be distinct as takes after; that banks and financial institutions allocate monies to projects with positive net present values and are risky and may be unbankable, and loans are lend out at the expenses which are comparable to the open door cost of assets, for instance the value of supply paid to fixed investors and savings.

The authentic work of Stiglitz & Weiss (1981) began the taunting of activities at categorising of apportioning of credit in loan markets. In this categorisation, the charged rate of interest by a foundation of credit are seen as having a double part of positioning potential

loaners (causing determination which are unfriendly) and impacting on the borrowers activities (causing the positive impact). Rates of interests in this way may affect the concepts of exchange and may not be clear to the market. The two effects are seen and respected because of the data which is flawed automatically in markets of credit. Adverse selection may occur in the event that the money the bank and the financial institutions may want to differentiate the loaner's willingness to repay their loans since the financial institutions normal profits depends on the likelihood of proper reimbursement. Banks and financial institutions are probably going to use the rates of interests that a persons will pay as a mechanism of screening while trying to differentiate debtors with high chances of repayment.

The adverse determination part of interest rates is a result of various borrowers having diverse probabilities of reimbursing their loans. The anticipated returns to the bank clearly rely upon the likelihood of reimbursement, so the bank might want to have the capacity to distinguish borrowers who are probably going to repay. It is hard to recognize great borrowers and to do so require the bank to utilize an assortment of screening gadgets. The interest rate which an individual will pay may go about as one such screening gadget: the individuals who will pay high interest rates may, all things considered, be more awful risks; they will obtain at high interest rates on the grounds that they see their likelihood of reimbursing the loan is low. As the interest rates rises, the normal riskiness of the individuals who obtain increments potentially bringing down the bank's profits. In the same case, as the interest rate and different terms of the agreement change, the conduct of the debtor is probably going to change.

This theory helps customers to effectively manage the challenges posed by fluctuating interest rates and their impact on loan repayment performance, Pride financial institutions must adopt a multifaceted approach that addresses both external economic factors and internal borrower management. First and foremost, the institution should strengthen its macroeconomic monitoring and risk management framework

EMPIRICAL LITERATURE REVIEW

Relationship between Interest Rate and Loan performance

The traditional analysis of the commercial banking sector postulates that the assets of the banks should mainly be of a short-term maturity, as this would allow banks to effectively meet their demand deposit liabilities when required (Roussakis, 1977). Larger loans with greater maturity periods would be charged a higher rate of interest than smaller loans with lower maturity periods. However, in response to changing private sector credit demand, increased technology in the banking industry and new banking techniques, commercial banks' portfolios have shifted towards consenter, mortgage and business loans, with an increase in maturity 6 periods (Codrington and Coppin, 1987).

Thus, modern commercial banks are much less constrained to holding short-term liquid assets. As a result of this shift in commercial banking policy, it has been argued that commercial banks are biased against certain types of borrowers. For example, because of the relatively greater risk of small businesses, they are usually charged higher rates of interest in comparison to larger business (Strahan, 1999). This is closely related to the credit

rationing literature based on the contributions of Keeton (1979) and Stiglitz and Weiss (1981). These models assume that the same loan contract is offered to loan applicants exhibiting differing risks of insolvency. It is then shown that equilibrium credit rationing can occur in credit markets with imperfect information if the positive effect of an increase in the interest rate on bank's profit, is outweighed by the negative adverse selection effect induced by a declining average probability of loan repayment.

Interest Rate and Loan Delinquency

The determinants of loan reimbursement under the indigenous financial framework in southeast, Nigeria (Eze and Ibekwe, 2013). They utilized descriptive statistics and various relapses to break down the information. The dissected information uncovers that measure of loan got, period of recipients, house hold estimate, instructive accomplishment, and occupation can impact on loan reimbursement. According to Bi changa and seyo (2013) study on the effects of de fault on loans in the Kenyan microfinance institutions, the findings established that there several firms that rely on the federal or government and its agent to subsidize prices as a means of minimizing financial losses occurring from defaults on loans.

Factors which fall in between these two categories have as a result been given limited attention. Borrower characteristics, though very vital in predicting the risk factor of a loan, have not been directly examined as it influences the non-performance of a loan. There is increasing need to understand exactly how lending procedures determine the probability of a loan becoming non-performing. Regulatory guidelines for commercial banks differ from one country to another. Even with this difference in practice, what all countries have in common is the endeavor to establish good lending practices and have proper guidelines that will lower the risk factor of loans and improve on their performance.

Client perception on interest Rate and Loan Repayment

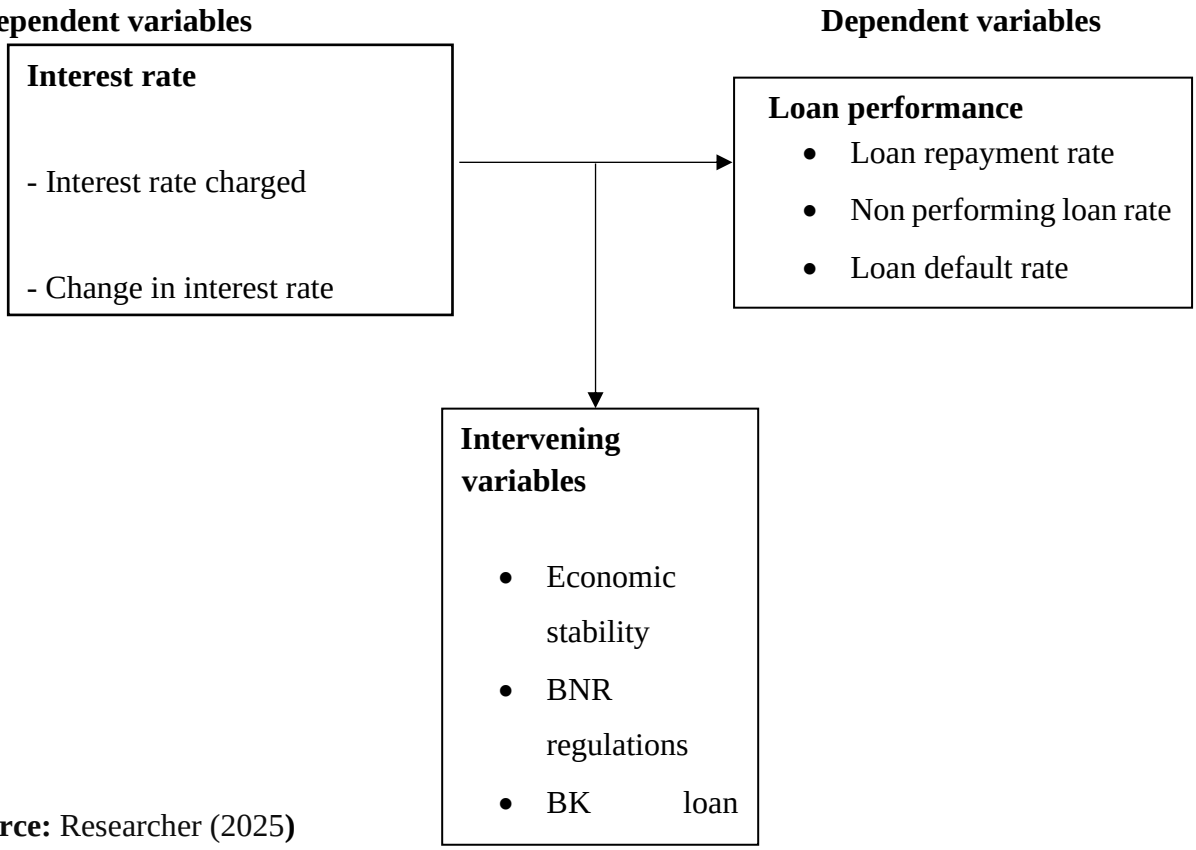
Ivaschenko and De Nicolo (2014) studied the universal liquidity levels, premiums of risk and opportunities of growth. Three key findings was established. One, it was established that there was an increase in the liquidity in the market across the world since early 1990s and they partly influenced loan repayments executions by Yam Ranchers in the Sene District. In the investigation light, the constituents that affects loan reimbursement, he utilized the Tobit show. As per the discovering training, Analysis encounter, benefit, age, supervision and off farm wage effects on loan reimbursement execution.

Additionally, Lasse and Viral (2015) studied the relationships between liquidity of assets and asset pricing. The study established a model that presented that an asset's required rate of return depends on the liquidity anticipated the co-variance of its comeback and liquidity with the re-turn on the marketing and liquidition leveling. The modeling moreover, presented a harmonious knowledge for the several ways in which losses of liquidity may influence the costs of assets. The study also presented the possibility that the level of liquidity may at times vanish from a certain market and because of that may result to failure when needed, this is an enormous investor's source of risk. The greatest challenge in variability and uncertainty of financial liquidity is believed to be amongst users of financial liquidity.

Conceptual Framework

(Mugenda & Mugenda, 2008) The conceptual framework definition is a brief description of the phenomenon being studied accompanied by a picture or visual representation of the main variables of the study. (Young, 2009) A conceptual framework is a schematic representation of the relationship between dependent and independent variables.

Fig 2: Conceptual framework



Source: Researcher (2025**)**

During this study, this model was used but some aspects will be left out due to limited data available, therefore, the researcher will adopt some elements of the above model. The above model clearly identifies the three types of variables that were focused on in the study. Independent variables Interest rate and the. Dependent variable (loan performance). and intervening variables such as economic policy and BNR regulations) the intervening variables can have an effect on the dependent/independent variables as elucidated above.

RESEARCH METHODOLOGY

Research Design

This research problem was studied using descriptive research design. A descriptive study aims to discover the what, where and how of a phenomenon. Therefore, this study can generalize the results to all public sectors involved in procurement. Therefore, this approach is suitable for this study, as the study aims to collect comprehensive information through descriptions that are useful in identifying variables.

Population And Selection Of Sample

Population

The population is defined as the entire group of people under study as specified by the objective of the research (Roger 2011). The populations under this study 3241 clients of BK who used loan.

Sampling Procedures

Sample is a number of items or people to be selected from the entire population (Kenneth D. Bailey, 1978). This study will be carried out by gathering information from clients of BK who used loan, According to Yamane 1974; sample size is calculated by using the formula below:

$$n = \frac{N}{1 + N(e)^2}$$

Where:

N= Population

e= level of significance/ error allowed is in %

For this, N= 3241 their clients, e = 10%

$$n = \frac{3241}{1 + 3241(10\%)^2} = 97$$

Thus, the sample size was 97 individuals who are customers of BK were chosen.

Sample Selection Techniques

The researchers used purposive, stratified and simple random sampling techniques to select employees of BK Bank/Rubavu branches. A purposive sampling is a subset of a statistical population in which each member of the subset has not an equal probability of being chosen. A purposive sample is a non-probability sample that is selected based on characteristics of a population and the objective of the study. Purposive sampling (also known as judgment, selective or subjective sampling) is a sampling technique in which researchers relies on his or her own judgment when choosing members of population to participate in the study.

RESEARCH FINDINGS AND DISCUSSION

Introduction

This chapter presents information collected from the field. It covers the research findings, analysis of data collected and interpretation of the primary data collected from the field.

Demographic Information Of Respondents

This section presents the identification of respondents. Data displayed are gender, age and education level. These data helped in the study to know the characteristics of study participants and ensure that information collected was reliable and accurate for the purpose of the study.

Age Structure of the Respondents

Table below shows age structures of the respondents

Table 1: Classification of Respondents by Level of Age

Age	Frequency	Percent	Cumulative Percent
26-30 years old	24	24.7	24.7
31-35 years old	24	24.7	49.4
36-40 years old	24	24.7	74.1
41-45 years old	25	25.7	100.0
Total	**97**	**100.0**	

Source: Primary data, 2025

The result of this table above shows that 24.7% of populations have aged between 26 and 30 years, 24.7% have aged between 31 and 35 years of age, and 24.7% have aged between 36 and 40 years of age, and 25.7% have aged between 41 and 45 years of age. According to the table above youth were more supported than old people, this situation made researcher to think along why the old people were not considered. The study obtained details about age group of the respondents for purposes of understanding their age. It can therefore to conclude that the majority of respondents are in the most productive ages.

Gender of the Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	73	75.3	75.3	75.3
Female	24	24.7	24.7	100.0
Total	**97**	**100.0**	**100.0**	

Source: Primary Data, 2025

From table 2 show that, 75.3 % were male while 24.7 % were females. This shows that respondents were more male than female. This was confirmed by the responses from the questionnaires filled where males were more than females. More significantly it shows that data obtained is free of gender bias

Education and experience of the respondents

The respondents of the study were of diverse demographic characteristics. The study investigated the social economic characteristic of respondents. Some of the importance aspects such as length of services in the bank (experience), the level of education of respondents were considered. The purpose of this was to know how the reliable and relevant the information from respondents can be. The table below summarizes the information got on education level and experience of respondents.

Table 3: Education Level of Respondents

What is your level of education		Frequency	Percent	Valid Percent	Cumulative Percent
	Secondary	36	37.5	37.5	37.5
	Bachelor's degree	36	37.5	37.5	75
	Masters	25	25.0	25.0	100
	Total	**97**	**100.0**	**100.0**	

Source: Primary data, 2025

From the table above, 37.5% of respondents have finished secondary level, 37.5% of respondents hold bachelor level, 25% of respondent hold Master. One can clearly realize that educational level of employees is an important aspect that has an impact on effectiveness of the work and from the above percentage; none of respondents in below diploma; level although none is also above Bachelor's Degree. Therefore, the information from respondents in this end is highly reliable.

Table 4: Experience of Respondents

Experience	Frequency	Percentage (%)
Below 2 years	12	12.5
Between 2 and 4 year	24	25
Between 4 years and 6 years	24	25
Above 6 years	37	37.5
Total	**97**	**100**

Source: Primary Data, 2025

The above table shows that 12.5% has the experience of less than 2 years, 25% of respondents have the experience between of 2 and 4 years working in Bank of Kigali/ Rubavu Branch, and 25% of respondents have the experience between of 4 and 6 years working in Bank of Kigali/ Rubavu Branch while 37.5% of respondents have the experience of above 6 years working in Bank of Kigali/ Rubavu Branch. The implication of this high degree of employees experience is that experience may lead to a good performance in general. For the purpose of this research, the information given by highly experience respondents are relevant and highly reliable.

Presentation of Data

This section presents key data over the past 10 years (2013–2023). The data is drawn from published reports of the **National Bank of Rwanda (BNR)**, **Rwanda Development Board (RDB)**, and **National Institute of Statistics of Rwanda (NISR)**.

Interest Rate Trends (2013–2024)

Although the study period is 2022–2024, secondary data from 2013–2024 was analyzed to show long-term trends in interest rates and provide a broader context for the recent changes in Rwanda's financial sector.

The table below shows Rwanda's average lending interest rates and Central Bank Rate (CBR) from 2013 to 2024.

Table 5: Interest rate

Year	Central Bank Rate (%)	Average Commercial Lending Rate (%)
2013	7.0	17.5
2014	6.5	17.2
2015	6.5	17.0
2016	6.5	16.8
2017	6.0	16.5
2018	5.5	16.3
2019	5.0	15.9
2020	4.5	15.2
2021	4.5	15.5
2022	5.0	15.8
2023	5.5	16.1
2024	5.7	16.6

Source: BNR, 2025

Interpretation

The data shows a general decline in both the central bank rate and commercial lending rates from 2013 to 2024, likely influenced by policies aimed at stimulating economic activity. However, slight increases from 2021 onward may reflect adjustments in response to global inflationary pressures or post-COVID-19 recovery.

This table shows the Bank of Kigali interest rate range evolution.

Loans Granted to Customers Between 2022- 2024

The table below shows how loan was granted during the period under study.

Table 6: Loan granted to Customers in BK 2022- 2024

Types of loans	2022	2023	2024
Treasury loans	1,194,091,480	1,832,678,174	1,513,633,148
Equipment loans	559,575,721	1,080,785,564	1,807,625,540
Consumer loans	1,491,294,942	1,794,053,371	2,173,275,017
Mortgage loans	1,950,117,907	3,063,537,041	3,284,714,612
Total loan granted	5,495,080,050	7,771,054,150	8,779,248,317

Source: Elaborated by the researcher based on annual report 2022- 2024

The above table shows the value of different loans that BK granted during those three years where shows that most loan granted was mortgage loan in those three years with 5,495,080,050 in 2022, 7,771,054,150**,** in 2023 and 8,779,248,317 in 2024. Means that there is an application of loan management in BK implies by the increase of loan granting the year by the year as the above table shows us.

Loans Evolution in BK

The above table contains the result from different loans that was granted during period of 2022 – 2024, evolution and percentage evolution of total loans granted.

Table 7: Table of loans evolution in the study period

Period	**2022**	**2023**	**2024**
Total loan granted	5,495,080,050	7,771,054,150	8,779,248,317
loan granted variation		2,275,974,100	1,008,194,167
Variation percentage		29.28 %	11.49 %

Source: Situation of loans granted by BK 2022 - 2024

The above table 12 shows Cleary performance of loan granted by BK during period of 2022-2024 where 5,495,080,050 were in 2022; for 2023 was7, 771,054,150 and 8,779,248,317 in 2024. This performance was good for a bank because it's characterized by increasing in giving loans where percentage increase was 29.28% during 2022-2023 and 11.49% during 2023-2024.However most of income that BK had was form loans granted

Performing Loans and Profitability Evolution in BK

The following tables shows the classification of loans according to the payment that BK had during period 2022- 2024 where loans granted were in five categories which are A, B, C, D, and E including provision predict for each categories.

Table 8: The level of Performing Loans in BK Between 2022 to 2024

LOAN	2022	2023	2024
Total loans	544,097,392	684,284,666	898,862,871
Non-performing loans	24,007,332	108,582,218	32,405,075
Nonperformance rate	4.41%	15.8%	3.6%

Source Situation of credit in BK, 2022-2024

According to the table above, the non performance rate was of 4.41% in 2022, 5.8% in 2023 and 3.6% in 2024. According to national bank of Rwanda which stipulates that non performing loan must not exceed 5%, it is highlighted that in 2023, BK did not comply with this regulation but it complied with it in other years of the research.

Correlation Between Interest Rates and Loan Repayment

Table 9: Correlation Between Interest Rate and Loan Repayment

Variables	Loan repayment(Y)	Interest rate(X)	Loan repayment
Loan repayment	Pearson Correlation Sig. (2-tailed)	1	′8** .005
	N	97	97
Interest rate	Pearson Correlation Sig. (2-tailed)	-78** .005	1
	N	97	97

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

Source: Primary data

Table shows that there is a weak correlation between interest rate and Loan repayment Using a **simple correlation analysis** (hypothetical result):

- The **correlation coefficient (r)** between the lending interest rate and total loan repayment over the period is approximately **-0.78**, indicating a **strong negative correlation**.
- This means that as interest rates fall, loan repayment levels tend to rise significantly.

This aligns with classical economic theory, which posits that lower borrowing costs encourage loan repayment due to increased affordability of credit for businesses and individuals.

Analysis of Interest Rate and Loan Repayment Behavior

The above issue was asked to respondents and the table below are their opinions.

Table 10: interest rate and loan repayment behavior

Statement	1		2		3		4		5			5
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%		
The interest rate charged affect my ability to repay on time	11	11.3	18	18.5	6	6.1	39	40.2	23	23.7		23
I have missed one or more repayment due to high interest rate	11	11.3	9	9.2	12	12.3	31	31.9	34	35		34
The interest rate charged affect my monthly repayment plan	19	19,5	11	11.3	7	7.2	31	31.9	29	29.8		29
I prioritize paying loans with lower interest rate	4	4.1	9	9.2	4	4.1	37	38.1	43	44.3		43

Source: Primary Data, 2025

This table shows the respondents views on interest rate and loan repayment behavior, 40.2% and 23.7% confirmed that The interest rate charged affect their ability to repay on time, 6.1% remained neutral whereas 11.3% and 18.5% disagreed, 35% of respondents and 31.9% confirmed that they have missed one or more repayment due to high interest rate while 11.3% and 9.2% did not agree with this statement, 29.8% of respondents and 31.9% confirmed that The interest rate charged affect their monthly repayment plan, while 19.5% and 11.3% did not agree with this statement,38.1% and 44.3% of respondents confirmed that they prioritize paying loans with lower interest rate while 13 did not agree with this statement.

For customers this table shows that the majority of respondents have difficulties in repaying loans as interest rate remained relatively high tackling their financial revenues

For Bank of Kigali, this table shows that without flexibility in interest rate setting, follow up and financial advices to customers non performing are likely to increase.

Loan performance and Default Indicators

The above issue was asked to respondents and here below are their opinions

Table 11: Loan performance and default Indicators

Statement	1		2		3		4		5	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
I have never missed a loan repayment	23	23.7	32	32.9	6	6.1	20	20.6	16	16.4
I have requested for a rescheduling or restructuring of my loan	17	17.5	18	18.5	9	9.2	27	27.8	26	26.8
My loan is currently up to date and being serviced as agreed	23	23.7	27	27.8	7	7.2	21	21.6	19	19.5
Interest rate have caused me to delay or default on loan performance	16	16.4	18	18.5	5	5.1	29	29.8	31	31.9
I would consider borrowing again if interest rate were more favorable	13	13.4	12	12.3	2	2	33	34	37	38.1

Source: Primary Data, 2025

This table shows that concerning the Loan performance and default Indicators, 23.7% and 32.9% of respondents disagreed about they have never missed a loan repayment while 20.4% and 16.4% agreed with it, 27.8% and 26.8% confirmed they agreed with I have requested for a rescheduling or restructuring of my loan while 17.5% and 18.5% disagreed with this statement, 23.7% and 27.8 did not agree with My loan is currently up to date and being serviced as agreed while 21.6% and 19.5 agreed, 29.8 and 31.9% agreed with Interest rate have caused me to delay or default on loan performance while 16.4% and 18.5 disagreed, then 34% and 38.1% of respondents agreed with I would consider borrowing again if interest rate were more favorable while 25% disagreed.

This table shows that as interest remain increasing, default indicators increase also in Bank of Kigali.

For customers the majority confirmed that their repayment ability indicators were decreasing increasing their default likelihood as they have significant difficulties in repaying their loans

For Bank of Kigali This table shows the negative trend existing between interest rate and repayment asking for effective measures such as loan rate reduction, more payment flexibility and proximity enforcement with customers

Evaluation of understanding of interest rate

The above issue was asked to respondents and here below are their opinions

Table 12: Evaluation of understanding of interest rate

Statement	1		2		3		4		5	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
I fully understood the interest rate charged on my loan before borrowing	27	27.8	24	24.7	8	8.2	18	18.5	20	20.6
The interest rate influenced my decision to take the loan	30	30.9	24	24.7	5	5.1	20	20.6	18	18.5
I believe the interest rate on my loan was too high	10	10.3	12	12.3	9	9.2	35	36	31	31.9
The loan officer clearly explained to me how interest rate works	23	23.7	28	28.8	8	8.2	20	20.6	18	18.5
I am aware of how interest rate charges affect my loan repayment	6	6.1	12	12.3	9	9.2	32	32.9	38	39.1

Source: Primary Data, 2025

This table shows that concerning the Evaluation of understanding of interest rate, 27.8% and 24.7 did not agree with I fully understood the interest rate charged on my loan before borrowing, while 18.5% and 20.6 agreed. 30.9 % of respondents and 24.7% did not agree with The interest rate influenced my decision to take the loan, while 24.7 % and 18.5% agreed**.** 36% and 31.9% of respondents agreed with I believe the interest rate on my loan was too high, while 10.3% and 12.3% did not agree with it. 23.7% and 28.8% of respondents did not agree with The loan officer clearly explained to me how interest rate works, while 20.6% and 18.5% agreed then finally, 39.1% and 32.9 confirmed I am aware of how interest rate charges affect my loan repayment while 12.3% and 6.1 of respondents disagreed with this statement.

This table shows that respondents in BK did not really understood how interest rate repayment mode works.

For customers ignorance persists in interest setting and understanding and its effect on loan repayment schedule.

For Bank of Kigali this table shows that more explanations are required to customers on interest setting and its effect on loan repayment.

CONCLUSION

The study concludes that banks faces loan default on funds advanced. This is attributed to the risk of debtors. The study concludes that the rate of interest on loans charges leads to failure to pay in time and thus loan low repayment. It was also concluded that banks need to classify customers to mitigate on failing to pay loans and that preventing defaulters from receiving more loans from any other bank in the future is compulsory. It was concluded that banks faces risk of liquidity which is determined by the funding types that they, the credit money given and the banking sector competition. Moreover, the study concludes that the risk premium liquidity contributes to decreased loan repayment rate because of potential increase in the rate of interest which in turn discourages loan repayment.

The study discovered that the key indicator of financial execution and proficiency of business banks is the spread between loaning and deposit rates. On the off chance that this spread is large, it fills in as an obstacle to the extension and improvement of financial intermediation. This is on the grounds that it disheartens potential savers because of low profits for stores and therefore restricts financing for potential borrowers. This has the far reaching impact of decreasing achievable speculation openings and subsequently restricting future development potential. It has been watched that huge spreads happen in creating nations because of high working costs, financial tax collection or restraint, absence of an aggressive financial/managing an account area and macroeconomic instability. That is, risks in the commercial banks are high. The study revealed that the degree of interest rate spread differs and it is converse to the level of proficiency of the financial part, which is a branch of a focused domain. The nature and effectiveness of the financial segment observed to be the real explanations for differences in spread.

RECOMMENDATIONS

Since many of the defaulters of loans mainly results from the short term loans, commercial banks should charge a fair and reasonable rate which the short term borrowers afford and the same time avoid risk of default in the long-run. This study recommend also that commercial banks ought to screen and try to classify their loan customers to avoid issuing loans to the wrong class with the wrong amounts and these may result to increased loan repayment. The study also recommends that, in order to reduce risk of liquidity and increase rate of loan repayment, commercial banks and several other financial institutions should be encouraged to consider loan portfolio diversification by loaning out to different classes of individual since increased loans concentrated lends leads to liquidation burdens if that sector is affected negatively. Furthermore, the study recommends that commercial banks introduce collateral requirements depending on the size of the loans advanced to the customers.

Banks should endeavor to embrace principles to know your customer before the credit can be sanctioned. This are the means employed to know and understand all the particulars and character of the borrower before giving out the money. It can be achieved through scrutinizing the previous banking's from the statements, employment or the business transactions from the borrower. Banks should not mainly hang on collateral for them to secure the loans so that they can lend. Banks ought to likewise apply productive and powerful managing of financial losses that will guarantee that credits are coordinated with capacity to reimburse, credit defaulting are anticipated in like manner and pertinent measures taken to limit the same.

Banks ought to likewise upgrade perioding credit losses checking of their credit portfolio to lessen the increase in non-performance. This can be accompli shed by en-listing qualifying debt collecting procedures and competing work force.

The study recommends that commercial banks should partner with credit reference bureau in ensuring that information is communicated and shared on the loan defaulters in all financial institutions in Rwanda and this will minimize the loans default rate. Debt collectors should be sought from all corners and enlightened on the need to ensure collection is done on time to avoid bank and financial institutions losses.

Suggestions for Further Studies

The study suggests that more research should be done on the factors causing the rise in default rate in commercial banks in Kenya. Since, from R-squared results shows that a proportion of 21.1% is not explained by the four variables of interest rates, another study needs to be done to explain the remaining proportion. Also a similar study should be carried out in another country for comparison purposes.

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