

**ASSESSING INSTITUTIONAL FACTORS CONTRIBUTING TO
LOAN DEFAULTING IN FINANCIAL INSTITUTIONS IN
RATHNAPURA DISTRICT**



K.A.A KODITHUWAKKU



FCM1766



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**DEPARTMENT OF MANAGEMENT
FACULTY OF COMMERCE AND MANAGEMENT
EASTERN UNIVERSITY, SRI LANKA**

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Abstract

The loan default occurs when a debtor is unable to meet the legal obligation of debt repayment. Borrowers may default when they are unable to make the required payment or are unwilling to honor the debt. Loan default can be defined as the inability of a borrower to fulfil his or her loan obligation as at when due.

The researcher aims to achieve mainly four objectives through this research, those are, to find out whether credit policies contribute to loan defaulting in finance institutions in Rathnapura District, to establish whether initial loan appraisal process contribute to loan defaulting in finance institutions in Rathnapura District, to determine whether loan recovery procedures contribute to loan defaulting in finance institutions in Rathnapura District, to determine the overall institutional factors that contribute to loan defaulting in finance institutions. In terms of research methodology, this study used a descriptive research design. Sample were selected through quota sampling method, out of the 700,150 branch managers selected from 18 financial institutions in Rathnapura District. Data were collected from questionnaire and data analyzed using SPSS version 19.0 in descriptive statistics. This study found that there are three institutional factors leads to loan defaulting in the financial institutions in Rathnapura District. Such as credit policies, initial loan appraisal process, recovery procedures.

In terms of loan defaulting, there is a higher-level loan defaulting through higher level contribution of institutional factors in the financial institutions in Rathnapura District. When consider institutional factors, appraisal process, recovery procedures have a higher-level contribution for the loan defaulting but credit policies have an average level contribution for the loan defaulting. There is a highest-level contribution to the loan defaulting through loan recovery procedures comparing other variables in the financial institutions in Rathnapura District.

Keywords: institutional factors, loan defaulting

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