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DETERMINANTS OF LOAN PERFORMANCE OF BANKS IN BATTICALOA DISTRICT: A CONSUMER PERSPECTIVE

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ABSTRACT

A well- functioning financial system is fundamental to a modern economy, and banks perform important functions for society. In carrying out their function's banks are exposed to several types of risks. Such as credit risk, market risk, liquidity risk, operational risk, legal risk and reputation risk. While banks and other have faced difficulties for a multitude of reasons, credit risk is the most common cause of bank failures. Hence managing credit risk and having a profitable loan portfolio is importance for the wellbeing of any bank. This study attempts to explore the determinants of loan performance of Banks in Batticaloa District: a consumer perspective. Quantitative research approach was used for this study were obtained from bank loan users in Batticaloa District. Primary data had been practiced by this study. Questionnaire (Tamil) was used to collect the data and convenient sampling method was used to obtain 100 respondents from the bank clients. The data were analyzed using descriptive statistic, correlation and regression analysis. The findings indicate that there are good reliability and high-level loan performance of selected private and state commercial banks in Batticaloa District. And also, the results showed that there is a strong positive relationship between credit term, client appraisal, credit risk controls and collection policy on loan performance. The results of the study are helpful for the bank management to focus on these explanatory variables used in the study so that the performance of the loan may be enhanced.

Keywords: Loan performance, Credit terms, Client appraisal, Credit risk controls, Collection policy.

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1. Introduction

A bank is a government-approved entity responsible for accepting deposits, paying interest, clearing checks, making loans, serving as an intermediary, and providing financial services. Its main purpose is to keep money safe, offer interest on deposits, protect against inflation, lend money to firms, customers, and homebuyers, and offer financial advice. Financial institutions are performing a key role in an economic growth as they are mobilizing savings for productive investments through facilitating role in capital flows towards various sectors of the economy (Ahmed & Malik, 2015).

Bank lending activities are crucial for profitability, with credit being the granting of loans and debt creation. Credit management, or credit management, significantly impacts the success or failure of commercial banks and financial institutions. Credit risk management leads to maximize a bank's performance by maintaining credit risk exposure within an acceptable limit in order to provide a framework of the understanding the impact of credit risk management on banks profitability (Kodituwakku, 2015).

Effective credit management in banks involves influencing loan portfolios, influencing loan performance beyond NPL reduction. But also, timely repayment of loans, diversified credit risk, per and post credit monitoring, perfect credit identification and quality lending. (Kagoyire & Shukla, 2016). Organizational factors like credit appraisal, standards, risk controls, terms, and collection policy significantly impact loan performance. According to Lungu and Phiri (2017) there is a high positive correlation among credit terms and policy, lending, credit analysis and appraisal, and credit risk control and loan performance.

Today the role of the private sector in economic development of the country is highly understood. Under the current government, the previous credit restriction and discrimination were lifted together with the permission of the entry of private bank in the financial market (Gebeyehu, 2002). Credit is crucial for business success and economic development, but its quality depends on loan recover and financial institution's loan assets. Lower recovery indicates erosion of the institution effectiveness to provide expected services (Shiferaw & Abuye, 2019).

Sri Lanka's banking industry comprises licensed commercial banks and licensed specialized banks, with licensed commercial banks maintaining customer accounts and licensed specialized banks offering specialized services. They are 6 systematically important banks namely, Bank of Ceylon, People's Bank, Sampath Bank, and Seylan Bank, Hatton National Bank, Commercial Bank (Silva, 2007). This study investigates determinants of bank loan performance in Batticaloa District, focusing on consumer perspective on various loan types.

PROBLEM STATEMENT

Loan collection is the core business activity for commercial banks, with collection being the largest asset and revenue source. Loan portfolio problems, poor credit standards, risk management, and economic weakness have historically led to bank losses and failures. Effective management of the loan portfolio and the credit function is the fundamental to bank's safety and soundness (Murthy & Kamil, 2017).

Commercial banks should prioritize loan recovery for sustainable financial position, addressing poverty alleviation and economic development, influenced by internal and external factors. Various empirical studies linked with loan performances in relation to external and internal factors have been performed (Bichanga W. O. & Lilian, 2013). Alemayehu & Lemma (2014) explained that Loan performance in bank and financial institutions is mostly affected by internal factors like corruption, nonuse of prudent classification and risk assessment method and management deficiencies whereas external factors are influenced by deregulation, lack of information among financial institutions, government and political interference. According to Murthy & Kamil (2017) external factors have large contribution in Loan performance in financial institutions in these government and political interference have more impact in performance of commercial bank and other financial institutions. In Sri Lankan context, Absence of empirical studies on the other factors that affects loan performance in financial institution is the principal motivation behind this study which sought to find out the effects of credit term (CT), client appraisal (CA), credit risk controls (CRC) and collection policy (CP) on loan performance (LP).

According to this context, the problem of the study is identified as, “What are the determinants of loan performance of banks in Batticaloa District: A consumer perspective

RESEARCH QUESTIONS

Based on the research problem identified above, the following research questions are raised for investigation.

- How well-performing are the loans among the commercial banks in the Batticaloa District?
- What is the relationship between credit terms and loan performance among commercial banks in Batticaloa District?
- What is the relationship between client appraisal and loan performance among commercial banks in Batticaloa District?
- What is the relationship between credit risk controls and loan performance among commercial banks in Batticaloa District?
- What is the relationship between collection policy and loan performance among commercial banks in Batticaloa District?
- Whether the loan performance among the commercial banks in Batticaloa District impacts on credit terms, client appraisal, credit risk controls and collection policy?

RESEARCH OBJECTIVES

Based on the research questions raised above, following objectives are set out for the study.

- To identify the level of loan performance among commercial bank in Batticaloa District.
- To examine the relationship between credit terms and loan performance among commercial bank in Batticaloa District.
- To survey the relationship between client appraisal and loan performance among commercial bank in Batticaloa District.
- To study the relationship between credit risk controls and loan performance among commercial bank in Batticaloa District.
- To examine the relationship between collection policy and loan performance among commercial bank in Batticaloa District.
- To investigate the impact credit term, client appraisal, credit risk controls and collection policy on loan performance among commercial banks in Batticaloa District.

2. Literature Review

Commercial banks constitute a major component of the financial institutions in any particular country. Therefore, changes in the performance of this sector have adverse implications to the country's economy (Muthoni, Mwangi, & Muathe, 2020). Commercial banks in Sri Lanka have a rich history, dating back to the reigns of Sinhala kings, Portuguese, and Dutch. The concept of banking was introduced by the British colonizers, who established branches and offices in the region. After independence in 1948, the Central Bank of Ceylon was established to promote the complex economic and financial structures in the region. The Central Bank of Ceylon was established in 1950 to regulate the monetary policy regime, support the financial sector, and foster economic growth. Commercial banks contribute 60% of the Gross Domestic Product and recruit 40% of the workforce. They offer services such as deposit acceptance, personal, professional, and corporate loans, and investment products. Commercial banks are classified into primary and secondary functions, with primary functions focusing on accepting deposits and advancing loans. Secondary functions include managing the money supply, electronic banking, and managing the money supply.

Bank Loan

Bank loans are a fundamental component of the financial system, facilitating the flow of capital from savers to borrowers. Researchers have extensively studied various aspects of bank loans, including their role in economic development, risk assessment, and the impact on both individual and corporate borrowers. Studies by Smith (2010) and Allen et al. (2013) provide comprehensive overviews of the historical evolution and significance of bank loans in modern economies.

Non-Performing Loans (NPL)

Non-performing loans represent a critical concern for financial institutions and the broader economy. These loans are characterized by a high risk of default, leading to potential financial instability. Scholars like Laeven and Valencia (2013) and Demirgüç-Kunt and Huizinga (2010) have investigated the determinants of NPLs, their macroeconomic implications, and the strategies for their management.

Loan Repayment

Loan repayment is a critical factor in maintaining the stability of a financial system. Understanding the determinants and patterns of loan repayment behavior is crucial for both lenders and borrowers. Research by Lusardi and Tufano (2009) and Agarwal et al. (2017) delve into the behavioral aspects, financial literacy, and economic conditions that influence loan repayment.

Loan Pricing

This theory states that banks cannot always set high interest rates as it has to consider the problems of adverse selection and moral hazard since it is very difficult to forecast the type of borrower at the start of banking relationship (NS, Chilale, & L, 2018). High interest rates may cause adverse selection problem. This is called borrower's moral hazard since they are likely to take on high risk projects or investments (Chernykh & Theodossiou, 2011). Stiglitz and Wiez argue that banks may not set interest rates based on borrowers' non-repayment risk.

Commercial Loan

Adam Smith's 18th-century commercial loan theory suggests banks should provide short-term self-liquidating productive loans to business organizations, financing production, storage, transportation, and distribution phases. The central bank should lend on the security of these loans. This assures that there is appropriate degree of liquidity for each bank and appropriate money supply for the whole economy (Ogundipe, Akintola, & Olaoye, 2019). However, according to Khrawish (2011) the defect of this theory is that, it believes that loans are self-liquidating under normal economic circumstances which cannot always be the case. Depression leads to deteriorating production and trade, preventing debt repayment and lack of self-liquidating loans for retailers.

The Asymmetric Information

Information asymmetry refers to a situation where business owners or managers know more about the prospects for, and risks facing their business, than do lenders (Abedi, 2004). Banks face perceived information asymmetry, causing moral hazard, entrepreneurial behavior monitoring, and adverse selection in lending decisions due to insufficient customer details. The theory informs the study in that if credit unions exchange information about their clients" credit worth, they can assess also the quality of foreign credit applicants and lend to them as carefully as they lend to local customers (Denis, 2010).

3. Research Methodology

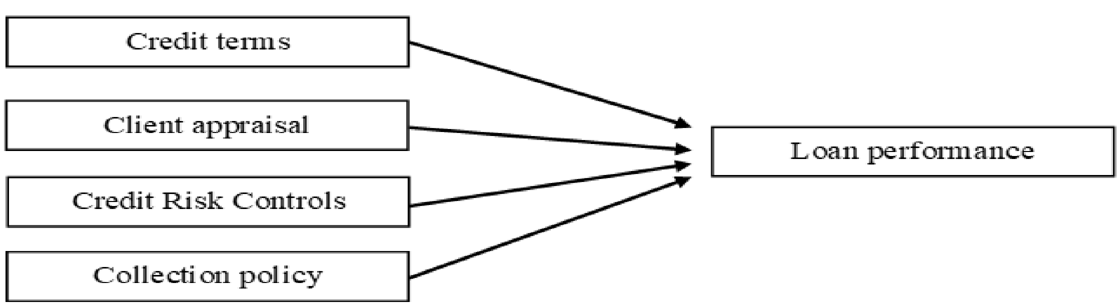

Figure 1: Conceptual Framework
Source: Malik & Ahmed (2015)

Data Collection & Sampling

Batticaloa District which is situated in Eastern Province Sri Lanka with a 2,304,833 population (Batticaloa District). Among them, study population is bank loan borrowers of state and private commercial banks in Batticaloa District. Sampling frame work is a comprehensive list of people from which the researcher intends to select a sample. In this research, sample size is one hundred (100) bank customers who are the bank loan users of state and private commercial banks (Bank of Ceylon, People's bank, Sampath bank, Hatton National Bank, Commercial bank) in Batticaloa District. The questionnaires were issued without any deviation on each bank.

4. Data Analysis and Discussion

Reliability And Validity Analysis

The result of the test is given in the Table 1 suggest that internal reliability of each research instrument is satisfactory.

Table 1: Cronbach's Alpha Test

Variable	Cronbach's Alpha
Credit term	0.752
Client appraisal	0.794
Credit risk controls	0.764
Collection policy	0.842
Loan performance	0.723

(Source: Survey Data)

Univariate Analysis

Sample Distribution Based On Account Holder's Bank

Relevant with details of the investigation can be identify most of the respondents are doing their bank activities with the Bank of Ceylon (29 frequency with 29%). Secondly highest account holders are engaging with their bank activities in Commercial bank (25 frequency with 25%). And other 10% bank loan users were Sampath bank customers which denote lowest number of respondents. People's bank borrowers represent 21% and Hatton National bank loan borrowers represent 15%. According to the findings related to the relevant account holders' bank, Bank of Ceylon customers are more adapt to the loan facilities.

Table 2: Frequency of Account Holder's Bank

Name of the Bank	Percentage (%)
Bank of Ceylon	29
People's bank	21
Commercial bank	25
Hatton National Bank	15
Sampath Bank	10
Total	100

(Source: Survey Data)

Level of loan performance

Researcher analyzed the average loan performance by using descriptive statistics of mean and standard deviation of loan performance among commercial banks in Batticaloa District.

Table 3: Mean and Standard Deviation of Loan Performance

Variables	Mean	Std. Deviation
Loan performance	3.96	0.458
Willingness to pay	4.01	0.611
Timeliness	3.87	0.646
Pay properly	4.00	0.651
Ease of payment	3.95	0.672
Cash flow	3.98	0.738

(Source: Survey Data)

Loan performance is dependent variable in this study. It includes five indicators. Table 3 shows each and every indicator's mean and standard deviation. Among these five indicators, timeliness has low significant mean value is 3.87 and high significant mean value is 4.01 which is denoted level of willingness to pay indicator. Overall LP has the mean value 3.96 with standard deviation of 0.458.

Table 4: Decision Attribute of Loan performance

Decision Attribute	Percentage (%)
Moderate level	16
High level	84
Total	100

(Source: Survey Data)

According to Table 4, the overall frequency level of LP it is noted that among 100 respondents about 84% of respondents have high level and 16% of respondents have moderate level of loan performance. Also, LP found to be high level

Bivariate Analysis

The Bivariate analysis includes the Correlation analysis and Simple Regression analysis, which were used to investigate relationship between credit terms, client appraisal, credit risk controls, and collection policy on loan performance.

Correlation Analysis

Correlation analysis used to determine relationship between the dependent and independent variable. The results of correlation analysis between loan performance with credit term, client appraisal, credit risk controls, and collection policy are shown below.

Table 5: Correlation between Loan Performance with Credit Terms, Client Appraisal, Credit Risk Controls, and Collection Policy.

	Credit Term	Client Appraisal	Credit Risk Controls	Collection Policy
Pearson Correlation	0.563**	0.509**	0.527**	0.517**
Sig. (2- tailed)	.000	.000	.000	.000
N	100	100	100	100

(Source: Survey Data)

Relationship between the loan performance with credit term, client appraisal, credit risk controls, and collection policy

According to the Table 5, “r” value of credit terms is 0.563 and it indicates a strong positive relationship between credit terms and loan performance. As significant value is 0.000, there is significant positive relationship between credit terms and loan performance. “r” value of client appraisal is 0.509 and it indicates a strong positive relationship between client appraisal and loan performance. As the significant value is 0.000, there is significant positive relationship between client appraisal and loan performance. “r” value of credit risk controls is 0.527 and it indicates a strong positive relationship between credit risk controls and loan performance. As the significant value is 0.000, there is significant positive relationship between credit risk controls and loan performance. “r” value of collection policy is 0.517 and it indicate a strong positive relationship between collection policy and loan performance. As the significant value is 0.000, there is significant positive relationship between collection policy and loan performance.

Multiple Regression Analysis

A linear regression model was applied to examine the relationship between the variables. The model treats loan portfolio performance as the dependent variable while the independent variables are credit terms, client appraisals, credit risk controls, and collection policy.

The relationship model was represented in the linear below:

$$\mathbf{Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + e}$$

Where, Y= Loan Portfolio Performance α= Constant Term:

X1= Credit Terms X2= Client Appraisals
X3= Credit Risk Controls X4= Collection Policy
ẹ= Error Term

Overall significance of the model can be measure by P- test and F- test. The overall model is significant since the p-value is less than 0.05 at 0.05 significant levels. In accordance with the F statistic condition, the overall model to be significant, it should be greater than the F table value. It can be illustrated as, F ratio > F table value.

Multiple regression analysis used to determine impact of credit terms, client appraisal, credit risk controls, collection policy on loan performance. The results of multiple regression between credit terms, client appraisal, credit risk controls, collection policy on loan performance are as follows.

Table 6: Multiple Regression Analysis- Model Summary

R	R Square	Adjusted RSquare	Std. Error ofthe Estimate
.721[a]	.519	.499	.32419

(Source: Survey Data)

Table 6 indicate that the value of R2 of the four factors is 0.519. This means that 51.9% of the variation in Loan Performance can be explained by all the independent variables, namely Credit Terms, Client Appraisal, Credit Risk Controls and Collection Policy. Adjusted R squared is the coefficient of determination (Adjusted for number of observation and number of parameters) which tell us the variation in the dependent variable due to changes in the independent variable, from the findings in the above table the value of adjusted R squared is 0.499 an indication that there is variation of 50% on loan performance of commercial banks (State and Private) due to changes in Credit Terms, Client Appraisal, Credit Risk Controls and Collection policy.

R is the correlation coefficient which show the relationship between the study variables, from the findings shown in the table above there is a strong positive relationship between the study variables as shown by 0.721.

Table 7: Multiple Regression Analysis- ANOVA table

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	10.791	4	2.698	25.669	.000[b]
Residual	9.984	95	.105		
Total	20.776	99			

(Source: Survey Data)

The Table 7 indicate that the p-value of 0.000 is less than alpha value of 0.05. This means that at least one of the four predictor variables can be used to model Loan Performance. Hence, as a whole, the relationship between Credit terms, Client appraisal, Credit risk Controls, Collection Policy and Loan Performance in this research is significant.

Table 8: Multiple Regression Analysis- Coefficients

Model	Unstandardized Coefficients		Standardized Coefficient	t	Sig.
	B	Std. Error	Beta		
(Constant)	.456	.348		1.311	.193
Credit term	.237	.084	.248	2.802	.006
Client appraisal	.161	.075	.187	2.139	.035
Credit risk controls	.280	.074	.298	3.755	.000
Collection policy	.203	.068	.247	2.981	.004

(Source: Survey Data)

Table 8 shows the coefficients table of the regression analysis. ß values of the table represent the degree to which extent the dependent variable can be affected by a certain independent variable while other independent variables remain constant. According to Table 8, regression results indicate that b-value of credit term is 0.237. Significant of t value is 0.006 it is less than 0.05 it is less than 0.05 and the beta value is 0.24. Based on the evidence it is concluded that the credit term is positive affect on loan performance.

Regression results indicate that the b-value of client appraisal is 0.161. Significant of value is 0.035 it is less than 0.05 and the beta value is 0.187. Based on the evidence it is concluded that the client appraisal is positive affect on loan performance. Regression indicate that the b-value of credit risk control is 0.280. Significant of value is 0.000 it is less than 0.05 and the beta value is 0.298. Based on the evidence it is concluded that the credit risk control is positive affect on loan performance.

Regression indicate that the b-value of collection policy is 0.203. Significant of value is 0.04 it is less than 0.05 and the beta value is 0.247. Based on the evidence it is concluded that the collection policy is positive affect on loan performance. Based on the results, regression equation can be written as follows.

Loan Performance = 0.456 + 0.237 CT + 0.161 CA + 0.280 CRC + 0.203 CP

From the above regression equation it is relevant that holding Credit Terms, Client Appraisal, Credit Risk Controls and Collection Policy to a constant zero, loan Performance would be 0.456, a unit increase in credit terms would be lead to increase in loan performance of banks by a factor of 0.237, a unit increase in client appraisal would lead to increase in loan performance of banks 0.237, a unit increase in credit risk controls would lead to increase in loan performance of banks by a factor of 0.280 and a unit increase of collection policy would lead to increase in loan performance of banks by a factor of 0.203.

According to the above Table 7 when we compare the b values in each variable indicates that the highest b-value is provide for credit risk controls and b-value for other variables are less than the credit risk controls. The b-value is 0.280. In case of this, the most relative important factor to loan performance is credit risk control

DISCUSSION

This session is to discuss the findings with the previous researches. Research information considers the determinants of loan performance. Those are credit terms, client appraisal, credit risk controls and collection policy. According to results of the frequency distributions that have been derived in the previous chapter, in this section, the results are further discussed. There are researches objectives have been developed by the researcher to provide meaningful destination towards the answer to main research problem of the study.

Level of Loan Performance among Commercial Banks in Batticaloa District

The first objective is the analyzed average level by using descriptive statistic of mean and standard deviation of loan performance of commercial banks in Batticaloa District. Table 1 shows that variable influence has mean value of 3.96 and its standard deviation value is 0.458 respectively. Table 2 specifies the frequency level of variable of loan performance. It is also noted that among 100 respondents about 84 (84%) of respondents have high level, 16 (16%) of respondents have moderate level contribution to determine the variable.

As further previous research founded that average response of the respondents for the LP is 4.3, which means the average performance of the loan is good according the respondents. There was a high level of loan performance reported from the respondents (Malik & Ahmed, 2015).

Bivariate Analysis

According to the analysis results correlation between credit terms and loan performance was 0.563 at the 0.01 significance level. It was failing under 0.5≤ r ≥1 coefficient range and p-value also less than alpha value (0.05). Therefore, it can be indicating as credit terms and loan performance has strong positive relationship.

According to previous research found credit terms was found to have a significant relationship with loan performance. This is supported by the computed chi- square value (10.130) at 1 degree of freedom and the computed p- value (0.0001)) which was less than 0.05 at 95% confidence level (Moti et al., 2012). Burt (2004) agrees with the findings of this study which are that credit officers' involvements in formulation of credit terms do affect the performance of loans.

Relationship between the loan performance with credit term, client appraisal, credit risk controls, and collection policy

According to the analysis results correlation between client appraisal and loan performance was 0.509 at the 0.01 significance level. It was failing under 0.5≤ r ≥1 coefficient range and p-value also less than alpha value (0.05). Therefore, it can be indicating as client appraisal and loan performance has strong positive relationship. Aliija & Muhangi (2017) Client appraisal significantly impacts loan performance by assessing borrower's ability, capacity, integrity, and structuring appropriate credit facilities for both borrower and bank. Therefore, proper appraisal of clients is of much important for bank loan performance.

According to the analysis results correlation between credit risk controls and loan performance was 0.527 at the 0.01 significance level. It was failing under 0.5≤ r ≥1 coefficient range and p-value also less than alpha value (0.05). Therefore, it can be indicating as credit risk controls and loan performance has strong positive relationship. And the previous research found Credit risk control significantly impacts LP, as investors face potential loss from default, increased collection costs, and decreased cash flows due to default risk. Therefore, credit risk controls could be alleviated by utilizing danger-based evaluating, contracts, credit protection, tightening and broadening (Ahmed & Malik, 2015).

Through the analysis results correlation between collection policy and loan performance was 0.517 at the 0.01 significance level. It was failing under 0.5≤ r ≥1 coefficient range and p-value also less than alpha value (0.05). Therefore, it can be indicating as collection policy and loan performance has strong positive relationship. The previous research study found that there was any significant relationship between collection policies adopted and loan performance. From the computed chi-square value (12.736) at 1 degree of freedom, there is a significant relationship between collection policy adopted and loan performance since the computed p- value (0.000) is less than 0.05 at 95% confidence level. This therefore implies collection policy adopted do influence loan performance

Ahmed & Malik (2015) the results regarding the correlation between the variables demonstrated that all the variables have positive correlation to each other. Credit term (CT) has the high degree of strength of the relationship with client appraisal (CA), collection policy (CP) and loan performance (LP), however this relationship is weak between credit terms (CT) and credit risk controls (CRC). Client appraisal (CA) has the high degree of strength of relationship with collection policy (CP) and loan performance (LP), but the same relationship is weak between client appraisal (CA) and credit risk controls (CRC). Furthermore, there is high degree of strength of the relationship between credit risk controls (CRC) and loan performance (LP).

Multiple Regression Analysis

Multiple Regression Analysis is an extension of multiple linear regression. It is used to predict the value of a variable based on the value of more than two variables. The model summary provides the correlation coefficient (R) and the coefficient of determination (R2) values. The R value indicates there exists a very strong positive correlation between the dependent variable (Loan performance) and the predictors (Credit terms, Client appraisal, Credit risk controls and Collection policy). The R2 value of 0.519 indicates how much of the variations in the dependent variable, was explained by the independent variables in this case 52% was explained by independent variables and 48% was explained by the other variables of the study. The p – value of ($0.000<0.05$) implies that the model is significant at 5% significance level. The coefficients of the regression analysis (beta values) as .0456, 0.237, 0.161, 0.280, 0.203 for a constant, credit terms, client appraisal, credit risk controls and collection policy respectively. The established regression model becomes:

$$\mathbf{Y = 0.456 + 0.237X1 + 0.161X2 + 0.280X3 + 0.203X4 + e}$$

The results indicate that a one unit increase in credit terms results in 0.237 unit increase in loan performance. One unit increase in client appraisal results in 0.161 unit increase in loan performance. One unit increase in credit risk controls as a result 0.280 unit increase in loan performance and also one unit increase in collection policy as a result 0.203 unit increase in loan performance. The corresponding p-values respectively indicates that all independent variable coefficients are statistically significant at 5% significance level this indicates that each independent variable is linearly related to the dependent variable. The four-predictor model can then be used to forecast the loan performance among commercial banks in Batticaloa District. The b-values indicate the level of influence of each variable towards the loan performance. Among them b-values of credit risk controls are the highest value which indicate that credit risk controls is the most influencing factor towards loan performance among commercial banks in Batticaloa District.

5. Conclusion

The credit assessment process should be focused on determining a borrower’s creditworthiness on the basis of identified risk and strategies developed to mitigate that risk. Credit risk is the most important risk affects for the bank existence and smooth operation. Hence priority of any bank is credit risk management. Due to the importance of having a profitable loan portfolio which reduces the amount of non-performing advances, the main objective of the study is to identify the determinants of loan performance of bank in Batticaloa District; a consumer perspective view. All the efforts were directed towards achieving research objectives.

The researcher identified four independent variables and one dependent variable, credit terms, client appraisal, credit risk controls, and collection policy. Primary data was collected from 100 loan borrowers in

Batticaloa District using questionnaires. The study used descriptive statistics, multiple regression analysis, and correlation analysis to investigate loan performance among commercial banks in the district. Univariate analysis was used to investigate the relationship between the dependent and independent variables, while bivariate analysis and multivariate analysis were used to determine the functional relationship between all variables. Frequency distribution analysis revealed that the majority of bank loan borrowers were males, with a majority falling between 31-40 and degree holders. Most respondents were also government sector employees, with the majority being housing loan borrowers. Descriptive statistics were used to investigate the level of each indicator representing loan performance.

According to the results obtained through regression analysis, all the independent variables including credit terms, client appraisal, credit risk controls and collection policy had significantly affected for the loan performance of commercial banks. Further it revealed that a unit increase in credit terms, client appraisal, credit risk controls, and collection policy would lead to increase in loan performance. Also, the study established that there was a positive association between those independent variables (credit terms, client appraisal, credit risk controls and collection policy) and the dependent variable (loan performance). In addition to the research objectives, researcher attempted to identify the most influencing factor, among them credit risk controls were the mostly influential factor.

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