UNIVERSITI TEKNOLOGI MARA

DETERMINANT OF LOAN RECOVERY RATE TOWARDS BANKING INDUSTRY IN MALAYSIA

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Final Year Project Paper submitted in fulfillment of the requirements for the degree of **Bachelor of Business Administration (Finance)**

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AUTHOR'S DECLARATION

I declare that the work in this final year project paper was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the results of my own work, unless otherwise indicated or acknowledged as referenced work. This thesis has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

I, hereby, acknowledge that I have been supplied with the Academic Rules and Regulations for Undergraduate, Universiti Teknologi MARA, regulating the conduct of my study and research.

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ABSTRACT

Loan recovery is a topic that the researcher chooses to study due to the current issue about to recover the loan that not being paid over the due. Loan recovery is the gathering of a loan amount from a borrower in non-payment. Recovery studies employ different measures of recovery rates. One common measure is the trading price of the debt instrument approximately 30 days after default. Firms defaulting on their bank loan obligations typically enter a period of bankruptcy protection, until their finances are successfully restructured. Some firms manage to fully recover and continue operating. Other less successful firms eventually fold up, with their creditors recovering less than was originally owed to them (or nothing). Hence, modelling recovery rates for defaulted loans is crucial, particularly for banks, as their capital ratio management is a function of accurately inferring recovery rates. The objective of this study is to determine loan recovery rate toward banking industry in Malaysia. In this study, loan size, interest rate, base lending rate and gross domestic product are the important toward loan recovery rate in Malaysia. The researcher used time series data about 97 latest years from 2010 to 2018. The data were analysed by using Pooled ordinary Least Square (OLS) to evaluate the relationship between variables by E-Views 9. From the empirical study, it is shown that the loan size, interest rate, base lending rate and gross domestic product influence the recovery rate. However, the study further anticipated the addition of supplementary variables to recover the strength and descriptive power of the general model.

Keywords*: Recovery rate, loan size, interest rate, base lending rate, gross domestic product*

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