FACTORS INFLUENCING THE REPAYMENT PATTERNS OF NON-BANK FINANCIAL INSTITUTION BORROWERS

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Prof,

FINAL RESEARCH REPORT 'FACTORS INFLUENCING THE REPAYMENT PATTERNS OF NON-BANK FINANCIAL INSTITUTION BORROWERS'

Kindly refer to the above.

Submitted are three (3) copies of our Final Research Report entitled 'Factors Influencing the Repayment Patterns of Non-Bank Financial Institution Borrowers by researchers from the Faculty of Business Management, UiTM Sarawak Campus for your reference.

Thank you.

Yours Sincerely,

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ABSTRACT

This study investigates the factors influencing repayment performance of non-bank financial internediaries borrowers in Kuching. A total of sixty queationnaires collected during the study period were used for the analysis. Findings showed that 45% of the respondents pay their credit obligations on time while the remaining take between one to six months to settle their monthly arrears. When the cross-tabulation analysis was used to identify the common demographic characteristics of the defaulters, it was found that majority of this group are male, married, has a lower education attaintment and self-employed. An empirical analysis on the impact of factors such as indebtedness, capacity, collateral and distance on repayment performance of non-bank financial intermediaries was performed using logistic regression analysis. Among the explanatory variables, distance and the requirement of a collateral demonstrated significant partial effects on the repayment performance.

CHAPTER 1: INTRODUCTION

1.0 INTRODUCTION

Managing repayment performance is crucial, as it is the main cause of non-performing loans (NPL). Under the Classification of Non-Performing Loans (1998) set by Bank Negara Malaysia, overdrafts, term loans, revolving credit facilities, leasing loans, block discounting facilities, hire-purchase loans and other loans that are due and have been unpaid for more than six months are considered to be non-performing. Managing non-performing loans is one of the biggest challenges for financial intermediaries. This is because a high non-performing loan would ultimately lead to the deterioration of the financiers bottom-line and threatens its survival.

Malaysia went through major non-performing loan (NPL) restructuring after the Asian financial crisis in 1998. Among the measures taken were the formation of Danaharta, the asset management company which completed purchase of NPL worth RM6.4 billion in 1999. Of late, Maybank, Malaysia's largest bank, has sold a portfolio of corporate NPLs, consisting of almost 100 borrowers with a face value of RM2.2 billion (US $630 million) (Price Waterhouse Coopers, 2007). Shortly after that, CIMB has launched its first NPL sale for corporate loans at the beginning of 2008 (Price Waterhouse Coopers, 2008). It is widely felt that these transactions only represent the tip of the iceberg, as more financial institutions are likely to follow through. Furthermore, Price Waterhouse