ITReX 2021

Universiti Malaysia PAHANG
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PREDICTING MICROFINANCE LOAN DEFAULT

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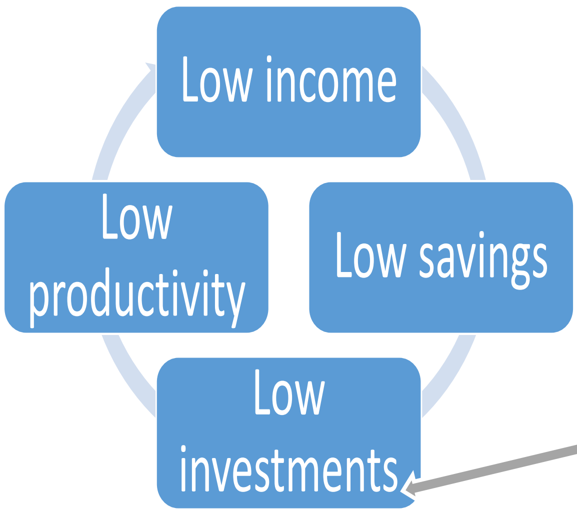
Background

Cycle of Poverty



Breaking the cyle of poverty

Financial Inclusion

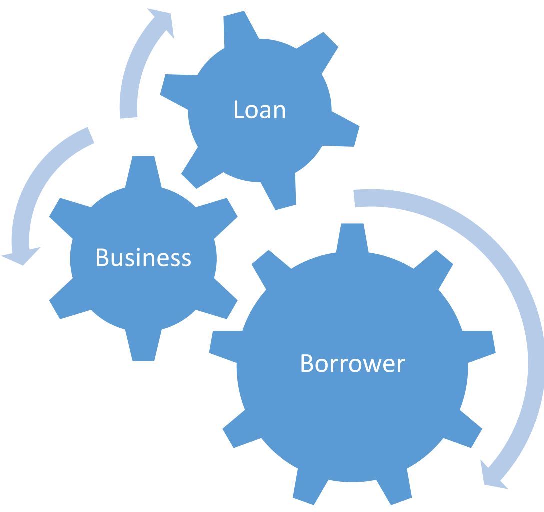
Microfinance intervention

Micro credit

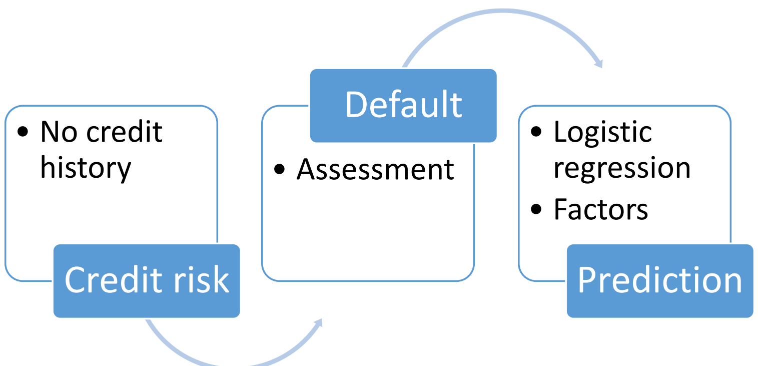
Credit risk – loan default?

Sustainability dilemma!

Framework



Method



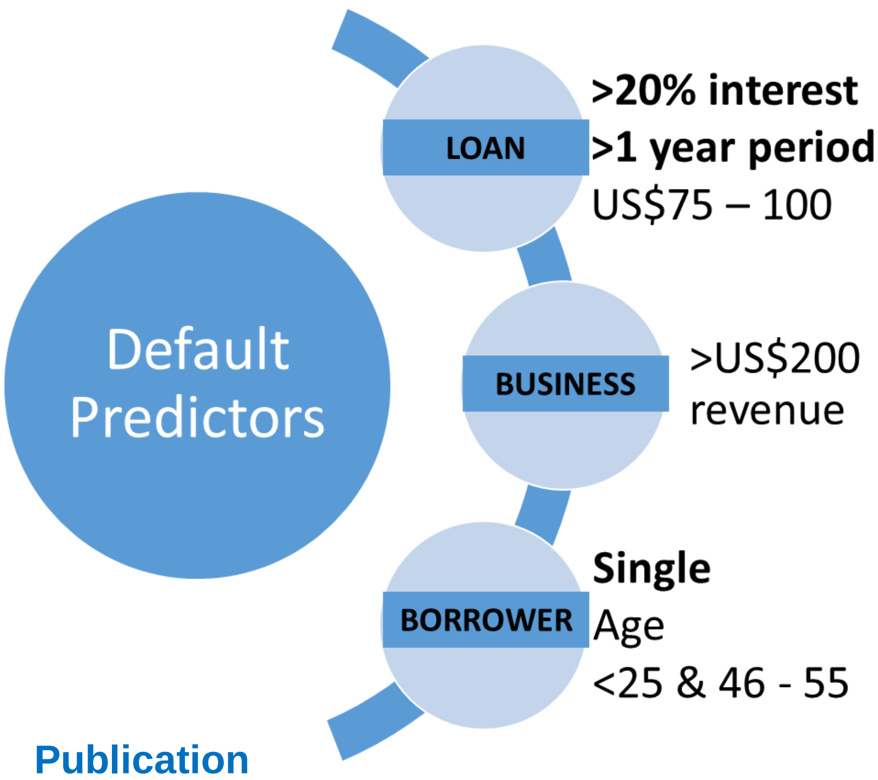
χ^2 = 67.361, p < .000 (26 Degrees of freedom, N = 400)

➔ Model is relevant

Usefulness/Applicability

- **Microfinance lending institutions can use the following predictors to avoid bad loans:**
- **Marital status (single individuals are more prone to defaults)**
- **Time period of loan (longer loans are prone to higher default rate)**
- **Interest rate (very high interest rates are likely to resul in loan default)**
- The following factors (statistically insignificant with a negative coefficient) may also lead to higher defaults:
- Higher repayment amount (more than US$75 per week)
- Higher business revenue (more than US$200 per week)
- Borrowers age (<25 & 46 – 55 age group are prone higer defaults)
- **The above factors could be used to avoid bad loans, borrower assessment and loan monitoring**

Results



Publication

- **Predicting Likelihood for Loan Default Among Bank Borrowers, International Journal of Financial Research, p. 318, 11(1), 2020 (Scopus Indexed)**