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Effectiveness of Credit Restructuring Strategies on Loan Recovery

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ABSTRACT

Credit restructuring techniques emerged into operations as a versatile, strategic resource in mitigating financial pressures and boosting loan recovery to borrowers during periods of economic turmoil. Further, inadequate knowledge about the impact of the credit restructuring strategies could lead to Kenya's inefficient credit financial system. The objectives of this study were: To assess the impact of credit restructuring on the loan recovery of commercial banks. In this case, the influence of extension of repayment periods, reduction in the interest rates, postponement on the repayment of the principal amounts, consolidation of payments, and extension of balloon payment is considered. The target population was 348 employees in the credit section of 30 commercial banks operating in Kenya. For this research, the technique of Simple Random Sampling was adopted to sample 186 employees from the banks. Thus, employing an explanatory research design. It was concluded that credit restructuring strategies particularly; extended repayment period, interest rate reduction, principal forbearance, debt consolidation, and extension of balloon payment period have positive and significant impacts on the loan recovery of the commercial banks. Hence, it is advised that commercial banks embrace or advance these credit restructuring approaches towards achieving better improvement of loan recovery.

INTRODUCTION

As observed in the current dynamic structure of the financial markets, it is highly crucial to sustain a sound credit structure. Banks hold an important position in maintaining economic stability by offering the credit required for the people as well as other companies. That is in extension credit, though it always attracts the perils of non-repayment, which may compromise the solvency of lending organizations as well as the economy at large. Loan recovery in international commercial banks is one of the major responsibilities of financial organizations and is important to the soundness of banks. Loan recovery strategies are the set of measures that are used by a bank to recover outstanding amounts from borrowers who have failed to make their loan repayments. As the international environment evolved, the issue of loan recovery has attracted increased interest from scholars and managers.

As much as it requires effective loan recovery strategies, there cannot be any gainsaying that the strategies personify one of the most sensitive areas of commercial banks' operations given its influence on their bottom lines. Effective recovery of loans reduces credit risk, maintains the quality of the bank's portfolio, as well as the profitability and solvency of banks (Maina & Njeru, 2023). Companies depend on bank finance, especially for investment and working capital hence loan recovery becomes an affair of importance. The impact is more rapidly witnessed during a harsh economic transition, where the actions of credit recovery remain prominent as banking institutions aim to reduce their operational risks. The traditional loan recovery approaches by banks are now shifting to Embedding Sustainability and ESG into Recovery Plans (ESCAP, 2017).

Loan recovery trends also have bearings that are good and bad for borrowers, investors, regulators, and the economy. Efficient loan recovery improves the state of the economy by reducing the number of loan defaults and improves confidence in the banking sector (Cordell *et al.*, 2008). Further, an effective loan recovery process helps loan recovery officers, financial organizations, and institutions accelerate economic growth to assist and facilitate drive access of credit to business entities and individuals. On the other hand, issues to loan recovery like long cycles of default periods or systematic imperfection in recovery procedures might lead to potential instabilities in the financial systems or may act as a barrier to the economic revival plan. (Giambattista & Pennings, 2017).

Credit restructuring plans emerged as one of the most important methods needed to come out with some relief measures for borrowings during economic turbulence and for improvement of the recovery of loans (Grigorian & Grigorian, 2023). Credit restructuring strategies have therefore emerged as crucial in containing problems of loan recovery within the commercial banking sector within the European economies (Hawkins & Turner, 1999). The COVID-19 economic problems in Kenya where credit restructuring offered a crucial contribution (Kimundi, 2022). The studies of credit restructuring in commercial banks are important in assessing the consequences and efficiency of such strategies in the face of economic conditions and dynamics, changes in regulations, and technology (Ndonji & Haabazoka, 2024). The difficulties of loan recovery have therefore seen commercial banks employing credit restructuring strategies as a way of solving non-performing loans

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and thereby improving the recovery status (John, 2019). Credit restructuring operates as a mechanism of changing the conditions of the outset credit agreement to accommodate the borrower's financial challenges hence minimizing the default rate. Such restructuring mechanisms may include an agreed prolongation of the period for loan repayment, a possibility of a decrease in interest rates, and temporary suspension of payments by the borrowers. The reasons behind the use of credit restructuring measures include efforts to support the borrowers in question and contain losses in the case of NPAs (Mahlangu & Chowa, 2024). However, the effectiveness of restructuring initiatives depends on how the conceived plans guarantee sustainable loans. For this reason, these aspects should be studied in the framework of commercial banks.

LITERATURE REVIEW

Credit restructuring strategies therefore emerge as significant components through which commercial banks work on loan delinquencies and seek NPL recovery. Correspondingly, the indicated strategies include the set of measures intended to influence the terms of the existing loan products to take into consideration the limitations of borrowers and enhance their capacities to fulfill their payment obligations (Grigorian & Grigorian, 2023).

Extended Repayment Plan and Loan Recovery

Debt suspension offers borrowers the flexibility to restructure the loan by creating more time for payment hence lowering the installment costs. Such an approach is also useful when several examinations and other tests show that the borrower has experienced long-term financial issues, for instance, graduates who have no work experience after graduation (Protase, 2022). A study by Bennett & Unal (2015) completed the research on the performance and recovery rates of the UK's distressed residential mortgages under loan modifications. Their analysis indicated that where loan modifications were made to decrease borrowers' monthly payments by over 10%, this led to better cure rates on the loans and lower default rates. But they also discovered that those alterations that were achieved through extending the maturity of the loans, or by increasing the balance on the loans, worked adversely on the recovery rates of the loans.

A quantitative study by Agarwal & Zhang (2018) evaluated the impact of the Home Affordable Modification Program (HAMP- a large-scale mortgage modification program), in America that was constructed to decrease the monthly payment of distressed borrowers through decreasing the rate of interest, lengthening the period, or reducing the amount of the loans. Specifically, they established that HAMP raised the propensity of borrowers to remain in their homes and raised the redefault rates of the modified loans. Adeyemi (2011) agrees with credit restructuring that has a positive impact on loan recovery rate because facilitates the repayment burden for borrowers and may also decrease the likelihood of default.

Credit risk management of financial institutions in Ghana was examined by Badu (2012). They identified four main loan recovery strategies rural banks use: loan management, loan renegotiation, credit rearrangement, and loan forgiveness. They discovered that loan monitoring and loan rescheduling were the two most effective and wanted tools because they improved borrowers' repayment capability and willingness, and lowered the price and risk of collection. They also discovered that credit restructuring and loan write-off were the least efficient and preferred overall initiatives since they amplified the moral hazard as well as adverse selection issues and shrank the profitability and viability of the rural banks. A study by According to Kinyua (2023) loan recovery implementation and loan collection also had a positive and significant impact on the rate of loan repayment of the revolving funds since it enhanced contract enforcement mechanisms and the incentives and sanctions aspect for borrowers.

Similarly, Ondari (2019) noted that credit restructuring was an effective solution for increasing customer satisfaction and loyalty, increasing customer relations and retention, customer recommendations, and feedback on the SACCOs. Similarly, Mutuku (2020) showed that the results of the credit restructuring were positive and significant to the non-performing loans ratio of the banks since it decreased the loan's default risk and the default risk costs. A study done by Muigai & Maina (2018) to conduct a comprehensive analysis of credit restructuring on the financial performance of commercial banks in Kenya also supported the above finding wherein he concluded that loan loss provision had a negative and significant impact on both return on assets, and return on equity whereby it reduced the total income and the equity of the banks.

Ho1: Extended Repayment Plan has no statistically significant effect on the loan recovery of commercial banks.

Interest Rate Reduction and Loan Recovery

One of the documented strategies that firms use to alter their loan contracts is to exercise a reduction in the effective interest rate with the view of easing overall indebtedness and debtor's repayment obligation (Charles & Mori, 2017). This is especially so, especially in the periods when the availability of credit is constrained, by reducing the interest costs of the outstanding loan balances thus giving debtors breathing space. Bennett & Unal (2015) studied that lower interest rates diminished the propensity of loan restructuring and also facilitated higher rates of liquidation. They also realized that lower interbank borrowing costs lowered the recovery of restructured or liquidated loans.

Using loan modifications and recovery behavior of the US banks during the financial crises of 2007-2009 as a sample, Kim (2017) investigated the impact of interest rate reduction. The authors also concluded that reduced interest rates singled out the likelihood of loan modification and decreased the chances of foreclosure. Olajide, Asaolu & Jegede (2011) explored credit restructuring and recovery performance of Nigerian banks under the influence of reduced interest rates. The authors discovered that low interest rates led to better credit restructuring and credit recovery in Nigerian banks. Asare (2024) concluded that a decrease in interest rates enhanced rescheduling and refinancing as credit restructuring techniques whereas; collateralization and write-offs as loan recovery techniques were enhanced.

As for the adversaries of interest rate capping, Ngambou Djatche (2022) pointed out that the capping decreases the efficiency of the banks and their profitability, increases the risk of credit and the rate of default of the borrowers, and changes the structure of the credit and the allocation of resources. They also complained that the act of capping was detrimental to the ability of the banks to restructure and recover the loans. Saeed (2014) pointed out that, the credit demand of microfinance clients which are mostly low-income earners and small business owners was boosted due to reduced interest rates. They also said that interest rate cuts enhanced the ability and propensity of the borrowers to repay as well as reversed the trend of non-performing loans and loan loss provisions of the microfinance banks.

Ho2: Interest rate reduction has no statistically significant effect on the loan recovery in commercial banks.

Principal Forbearance and Loan Recovery

Principal rescheduling means a lending institution's temporary inability or decision not to recover its principal amount due and owing to the borrower. This strategy gives impermanent comfort to borrowers who are experiencing problems in their financial cycle to overcome economic shocks during the forbearance period without pressure to repay the loan balance in its entirety (Hawkins & Turner, 1999). A study by Khan *et al.* (2020) examined the impact of the loan moratoria that is provided by Italian banks to households and firms due to the emergence of the COVID-19 pandemic. The result shows that moratoria leads to an increase in the repayment probability as well as the reduction of arrears for households and firms. It is recommended that the moratoria had a positive impact on the liquidity and profitability of the banks.

According to Radek (2021) these guidelines cover the treatment of legislative and non-legislative moratoria on loan repayments to banks in respect of the COVID-19 crisis. It outlined the factor upon which the moratoria had to meet to be recognized as general payment postponement schemes and not as forbearance or distressed restructuring. It also set down the reporting and disclosure standards of the banks that use the moratoria. A study by Malpezzi (2023) conducted a cost-benefit analysis of forbearance policies from the perspective of the COVID-19 shock. They standardized forbearance as the suspension of prudent and close monitoring measures on banks and borrowers. Forbearance they claimed should be applied when short-term funding constraints can be used to prevent the sale of assets and the default of payments but they insisted that long-term it may produce flawed lending and evergreening as well as the ability to avoid regulation. He said such practices should be well-directed, time-bound, transparent, and properly aligned to international best practices. However, the study does not present the proof and country analysis of the impact of forbearance on the recovery of loans by banks.

Ho3: Principal forbearance has no statistically significant effect on loan recovery.

Balloon Payment Extension and Loan Recovery

Without prejudice to specific loans, extending balloon payment terms is one of the ways that the banks employ to suit the needs of borrowers who have some financial challenges (Aung, 2019). This is because, through the extension of the required time within which a bulk amount of money should be paid, this comes in handy with something that saves the immediate pressure of making the hefty payments. Ramlall (2018) also postulated that balloon payment extension improves the recovery of loans by banks in Kuwait because it decreases the likelihood of default and enhances the cash flow of borrowers.

The study was done by Chepkoech (2014) provided a hint that balloon payment extensions have a positive effect on loan recovery by the banks in China since they would enhance the moral hazard and adverse selection risks of the borrowers. This paper contended that through extending balloon payment, there was tapering of the incentive for borrowers to repay the loans on time and it attracted high-risk defaulters.

In a study done by GISLAW (2018), the findings showed that balloon payment extension had a direct positive influence on the financial performance of microfinance institutions in Kenya through a positive effect on the loan portfolio quality and return on assets. The research findings suggest that balance payment extension was a form of credit restructuring instrument that added value to the stability and profitability of microfinance institutions.

Ho4: Balloon payment extension has no significant effect on the loan recovery.

Debt Consolidation and Loan Recovery

Another efficiency process used by commercial banks is the debt consolidation element which is effective, especially in cases where the borrowers have many debts (Dreyer, 2021). That includes the practice of obtaining a new loan which is usually cheaper than the several loans acquired and repaying the consolidated loan conveniently. According to Ogolla, debt consolidation enhances the financial performance and credit risks for the managing banks through service quality and the number of non-performing loans, the cost of funds, profitability, and liquidity ratios.

Miglionico (2019) has revealed that the level of debt consolidation including credit restructuring and recovery of US banks affected by the financial crises of 2008-2009. Specifically, the study showed that, while, debt consolidation was likely to enhance the quantity and extent of credit restructuring, charge-off and delinquency rates of restructured loans were lowered. In light of fanatic results, it could be concluded that the sort of debt consolidation enhanced the financial efficiency as well as the credit extension of the participating banks.

Jeroh & Okoye (2015) therefore examined the impact of debt consolidation on credit restructuring and recovery for Nigerian banks. That is, they argue that credit restructuring and, in particular, debt recovery benefits from consolidation as does the credit restructuring and credit recovery and the profitability, liquidity, and solvency of the consolidated banks. They established that debt consolidation had the positive effect of increasing the efficiency and competition of the Nigerian banks. Ahinsah-Wobil (2023) concluded that the banks' credit restructuring and recovery enhanced through debt consolidation as the consolidated banks' capital base increased, the cost of funds decreased, the risk was managed effectively, and the portfolio of loans diversified.

Ho5: Debt consolidation has no statistically significant effect on the loan recovery.

MATERIALS AND METHODS

The research employed the explanatory research design to determine the effect of credit restructuring strategies on loan recovery. It suited the research as it enabled achieving a deeper understanding of the causal relationships between credit restructuring strategies and loan recovery outcomes in commercial banks while controlling for the age and experience of the respondents. The study focused on all the 30 commercial banks' employees in Nakuru City who are attached to the credit section. The target population comprised 348 bank employees. This included credit analysts, loan officers, credit managers, risk assessors, and support staff involved in processing, evaluating, and managing loan applications and credit portfolios.

A simple random sampling technique was employed to select Employees in the credit section of the 30 commercial banks from the population. A sample size of 186 respondents was determined using Slovin's formula. The questionnaire consisted of both closed-ended questions, with a 5-point Likert scale used to gather quantitative data on credit restructuring strategies and loan recovery. A multiple regression analysis was employed to test the effect of credit restructuring strategies on loan recovery.

$$LR= \beta_0 + \beta_1 AG + \beta_2 EXP + \beta_3 EP + \beta_4 RR + \beta_5 PF + + \beta_6 DC + \beta_7 BP + \varepsilon$$

Where:

AG: Experience

EXP: Experience

EP: Extended Repayment Plan

RR: Interest Rate Reduction

PF: Principal Forbearance

DC: Debt Consolidation

BP: Balloon Payment Extension

LR: Loan Recovery

Response Rate

Table 1 illustrates the questionnaire response rate, highlighting the efficiency of the data collection process. Out of the 186 questionnaires administered, all were successfully distributed, representing 100% of the intended sample. Of these, 177 questionnaires were returned, translating to a commendable response rate of 95%, which indicates a high level of participation and willingness from respondents. This high return rate suggests that the participants were both accessible and motivated to engage with the study. Moreover, out of the returned questionnaires, 173, or 93%, were considered usable, meaning that only a small fraction of the returned responses were incomplete or invalid. This reflects positively on the clarity of the questions and the attentiveness of the respondents, as most provided sufficient and relevant information for analysis. The high percentage of usable responses strengthens the validity of the data, ensuring that the findings of the study are based on a comprehensive and reliable set of responses. The results are shown in Table 1.

Table 1: Questionnaire Response Rate

Responses	No.	Percentages
Administered questionnaires	186	100%
Returned	177	95%
Usable questionnaires	173	93%

Source: Research Findings (2024)

Demographic Information

Table 2 provides a summary of the demographic information of the respondents. In terms of gender, the majority of the participants were male, accounting for 61.3% (106), while females made up 38.7% (67) of the sample, indicating a gender imbalance in favor of males. Regarding age distribution, most respondents fell within the 31-40 years age bracket, representing 54.3% (94), followed by 19.1% (33) aged between 20-30 years, and 13.9% (24) between 41-50 years. Only 12.7% (22) of respondents were over 50 years old, suggesting that the majority of participants were in their early to mid-career stages. Concerning educational qualifications, more than half of the respondents (54.9%, 95) held a bachelor's

Table 2: Demographic Information

		Frequency	Percent
Gender	Male	106	61.3
	Female	67	38.7
	Total	**173**	**100**
Age	Aged 20-30 years	33	19.1
	Aged 31 – 40 years	94	54.3
	Aged 41 – 50 years	24	13.9
	Over 50 years	22	12.7
	Total	**173**	**100**
Level of Education	Certificate/Diploma	36	20.8
	Bachelor degree	95	54.9
	Master degree	42	24.3
	Total	**173**	**100**
Experience	Less than 2 years	34	19.7
	Aged 2-5 years	79	45.7
	Aged 6-10 years	33	19.1
	Over 10 years	27	15.6
	Total	**173**	**100**

Source: Research Findings (2024)

degree, while 24.3% (42) had attained a master's degree, and 20.8% (36) possessed a certificate or diploma. This distribution shows a well-educated sample, with a significant portion having advanced degrees. Finally, the respondents' work experience varied, with 45.7% (79) reporting 2-5 years of experience, followed by 19.7% (34) with less than 2 years, and 19.1% (33) having 6-10 years of experience. A smaller group, 15.6% (27), had over 10 years of work experience, indicating a diverse range of professional backgrounds within the sample.

Correlation Results

The correlation results in Table 3 highlight the relationships between Loan Recovery (LR) and various credit restructuring strategies. Loan Recovery is the dependent variable, while Extended Repayment Plan (EP), Interest Rate Reduction (RR), Principal Forbearance (PF), Debt Consolidation (DC), and Balloon Payment Extension (BP), are the independent variables. These correlations help identify which restructuring strategies are most effective in supporting loan repayment and reducing defaults. Below is an interpretation of each independent variable's relationship with Loan Recovery.

The correlation between the Extended Repayment Plan and Loan Recovery is positive at 0.443. This implies that with an expanded uptake of the long-term repayment modalities, loan recovery is normally enhanced. By so doing, borrowers are given more time within which to repay thus reducing the burden in every month which comes in the form of having to pay back the loan. The allowance offered by the products that are associated with the extended terms of repayment minimizes the cases of default, thus the recovery rates are high for lenders. Based on this result, it implies that it is more fruitful to encourage loan recovery through the extension of the credit terms for repaying the loans.

Likewise, the correlation coefficient between Interest Rate Reduction and Loan Recovery is positive at 0.341 points. This suggests that the policy of reducing the interest rate boosts households' loan recovery. The overall idea is when interest rates are lower, borrowers will be able to meet their debt payments more easily since the cost of borrowing has declined. They argue that the release of such pressure reduces the likelihood of default thus improving loan recovery, hence the importance of reducing such pressure.

Besides, Principal forbearance and Loan Recovery have a coefficient of 0.348, meaning that the two are positively related. Principal deferment gives borrowers time off from paying any money on the principal part of the loans during hard times, while they look for other means to repay the loan. Such an arrangement makes it convenient for borrowers to bring their financial affairs into order before they fully resume paying. The positive correlation indicates that loan recovery is enhanced when forbearance is provided since it prevents the borrowers from seeking early default to seek relief. Reducing the quasi-repayment pressures, principal postponement may be helpful for lenders to keep loan collection expectations over the long term.

Another positive correlation of 0.395 was recorded in the results under the tests for Debt Consolidation. Debt consolidation involves grouping several debts into a single and hence simplifies its repayment from the borrowers. This cuts down the risks of default since it is always easy for borrowers to make a single payment as opposed to

Table 3: Correlation Results

	LR	EP	RR	PF	DC	BP
LR	1					
EP	.443**	1				
RR	.341**	-.186*	1			
PF	.348**	-.108	.541**	1		
DC	.395**	.273**	.026	-.054	1	
BP	.375**	.110	-.529**	-.541**	-.026	1

***. Correlation is significant at the 0.01 level (2-tailed).*
**. Correlation is significant at the 0.05 level (2-tailed).*

LR: Loan recovery, EP: Extended Repayment Plan, RR: Interest Rate Reduction, PF: Principal Forbearance, DC: Debt Consolidation, BP: Balloon Payment Extension, RM: Risk Monitoring

Source: Research Findings (2024)

making several. Therefore, the issuance of consolidated loans leads to borrowers maintaining their repayment schedules thus a better recovery of loans for the lenders. The positive correlation confirms the efficiency of debt consolidation in dealing with credit liabilities and regaining the borrowed funds more successfully.

Balloon Payment Extension and Loan Recovery show a positive relationship which is 0.375. This enables the borrowers to make large balloon payments with an interval that allows him or her to assemble a considerable sum and thus does not lead to default when the period of the loan comes to an end. This extra time enables the borrowers to exercise better time management to ensure that they discharge their obligations to improve loan recovery. The positive correlation implies that the flexibility of giving more time for balloon payments can enhance loan recovery for borrowers who find it hard to repay big sums promptly.

Regression Results

Under the regression analysis, the key independent variables were included, that is, Extended Repayment Plan (EP), Interest Rate Reduction (RR), Principal Forbearance (PF), Debt Consolidation (DC), and Balloon Payment Extension (BP), which allowed for a deeper understanding of how these credit restructuring strategies impact Loan Recovery (LR). The results in Table 4 show how these variables contribute significantly to the variance in Loan Recovery.

The regression results show that the Extended Repayment Plan has a positive and significant impact on Loan Recovery ($\beta=0.412$, $p= 0.000 < 0.05$). The results further show that the Beta coefficient for the predictor variable Extended Repayment Plan is positive and equal to 0.412, which means for every one unit increase in the Extended Repayment Plan, Loan Recovery increases by 0.412 units, which is a clear indication of this intervention's significance on the recovery prospect for loan portfolios. This means that putting in place an Extended Repayment Plan enhances the chances of Loan Recovery, implying that the provision of long-term repayments boosts the chances of recovering outstanding loans. A flexible payment structure offers the borrowers extra time to make their payments thus having the ability to make the payments rather than default. Borrowers can manage their resources well as this lengthens the financial obligations and makes it possible for him/her to arrange for ways and means of meeting those obligations in the future hence raising the chances of recovery of loans by the lenders. This tallies with Bennett & Unal (2015) who discovered that loan modifications by cutting the payments by more than 10% boosted cure rates and lessened prospects of default. Similarly, Agarwal & Zhang (2018) also observed that, through audit precipitated change in repayment, enhanced programs such as the Home Affordable Modification Program, boosted loan redefault rates. In the same vein, Adeyemi (2011) also showed that credit restructuring enhances loan recovery since credit restructuring assists borrowers in the discharge of their obligations and hence lessens the risks of defaulting on their loans.

The results reveal that Interest Rate Reduction has a positive and significant effect on Loan Recovery ($\beta=0.197$, p-value$=0.003< 0.05$). This suggests that lowering interest rates can effectively increase Loan Recovery, indicating that borrowers are more likely to repay when their financial burden is reduced. The beta coefficient (0.197) shows that a unit increase in the strategy of reduction in interest rates results in a 0.197 improvement in Loan Recovery. Interest Rate Reduction lowers credit costs, making loan repayment more manageable for borrowers. By decreasing interest rates, monthly payments become more affordable, improving borrowers' cash flow and increasing their ability to stay current on loan payments. This strategy allows financially strained borrowers to stay on track, which enhances recovery rates for lenders by reducing default risk. Kim (2017) also noted that lower interest rates increased loan modification and reduced foreclosure risks, while Olajide, Asaolu & Jegede (2011) also observed improved credit restructuring and recovery performance in Nigerian banks.

Principal Forbearance is found to have a strong positive and significant effect on Loan Recovery ($\beta=0.155$, $p=0.020< 0.05$). The beta coefficient (0.155) suggests that for every one-unit increase in the provision of Principal Forbearance, Loan Recovery increases by 0.155 units. This implies that allowing borrowers to temporarily pause their principal repayments significantly improves Loan Recovery. The Principal Forbearance provides immediate financial relief to borrowers by suspending their obligation to repay the loan principal, thus allowing them to stabilize their financial situations. Borrowers can use the forbearance period to recover financially, which ultimately enhances their ability to resume regular payments in the future, leading to higher loan recovery. This aligns with Malpezzi (2023) who argued that forbearance can ease short-term liquidity pressures and help avoid defaults, though they caution about long-term risks like zombie lending and regulatory arbitrage.

Debt Consolidation has a positive and significant impact on Loan Recovery ($\beta=0.263$, $p=0.000<0.05$). The null hypothesis is rejected. The beta coefficient (0.263) demonstrates that each unit increase in Debt Consolidation leads to an improvement in Loan Recovery by 0.263 units. This implies that consolidating multiple debts into a single loan increases Loan Recovery. Debt Consolidation simplifies debt management by merging multiple loans into one, thus reducing complexity and the likelihood of missed payments. This streamlined approach allows borrowers to focus on a single repayment schedule and potentially benefit from lower interest rates, making it easier for them to stay on track and meet their financial obligations. For lenders, this increases the chances of recovering the full loan amount by reducing borrower confusion and default risk. This aligns with Miglionico (2019), who found that debt consolidation increased credit restructuring, reduced delinquency rates, and improved loan performance. Similarly, Jeroh & Okoye (2015) suggest that debt consolidation positively influences credit restructuring and recovery.

The results indicate that Balloon Payment Extension has a positive and significant effect on Loan Recovery ($\beta=0.218$, $p=0.001$, which is less than 0.05). This suggests that extending balloon payments improves Loan Recovery. The beta coefficient (0.218) indicates that a unit increase in Balloon Payment Extension is associated with a 0.218 increase in Loan Recovery. By extending balloon payments, lenders give borrowers more time to prepare for large, lump-sum payments, reducing the likelihood of default at the end of the loan term. The extension allows borrowers to plan their finances more effectively, ensuring they can meet their final payment obligation. The increased flexibility leads to higher chances of successful loan recovery, as borrowers are better equipped to meet large payments. This is consistent with Aung (2019) and Ramlall (2018), who suggested that extending balloon payments improves loan recovery by enhancing borrower flexibility.

Table 4: Regression Results

	β	Std. Error	Beta values	T values	P-values
Constant	0.101	.028		3.610	.019
Age	0.113	.029	.243	3.896	.000
Experience	0.014	.030	.030	0.471	.638
Extended Repayment Plan	1.043	.139	.412	7.493	.000
Interest Rate Reduction	0.173	.058	.197	2.992	.003
Principal Forbearance	0.144	.061	.155	2.348	.020
Debt Consolidation	0.662	.137	.263	4.817	.000
Balloon Payment Extension	0.172	.052	.218	3.339	.001
R Square	0.571				
Adjusted R Square	0.552				
F Statistic	31.310				
F-sig	0.000				
a. Dependent Variable: Loan Recovery					

Source: Research Findings, (2024)

CONCLUSIONS

Credit restructuring strategies such as extended repayment plans, interest rate reductions, principal forbearance, debt consolidation, and balloon payment extensions positively influence loan recovery. By providing borrowers with more flexible repayment terms, these strategies help ease financial pressures, making it more manageable for them to meet their obligations. For instance, offering longer repayment periods and reducing interest rates alleviate short-term financial strain, while forbearance and consolidation simplify debt management. Extending balloon payments also gives borrowers additional time to prepare for significant lump-sum payments. These restructuring efforts improve loan recovery by reducing the risk of default and enhancing borrowers' ability to stay on track with repayments. Financial institutions can adopt these approaches to mitigate losses, while also supporting borrowers in difficult financial circumstances.

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