

The Nexus between Financial Literacy and Loan Defaults and the Financial Outcome of Commercial Banks: Empirical Evidence from Ghana

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DOI: <https://doi.org/10.47772/IJRISS.2026.100500285>

Received: 30 April 2026; Accepted: 05 May 2026; Published: 29 May 2026

ABSTRACT

This study investigates the nexus between financial literacy and loan repayment performance within the Ghanaian commercial banking sector. Grounded in a positivist epistemological stance and an objectivist ontology, the research utilizes a descriptive research design to examine the determinants of credit default. The study population comprised all 23 licensed commercial banks in Ghana as of 2026. Using a purposive sampling technique, 19 banks were selected, from which data were retrieved via structured questionnaires from 99 frontline banking professionals, representing an 82.5% response rate. The demographic profile reveals a mature and highly experienced workforce, with 77% of respondents possessing over a decade of institutional tenure and 87.9% holding at least a Bachelor's degree. Preliminary results indicate a significant male majority (60.4%) in credit-related roles, with the primary workforce concentrated in the 31–40 age cohort (51.6%). Data reliability was confirmed through Cronbach's Alpha coefficients exceeding the 0.70 threshold. The analytical strategy employed SPSS (Version 27), utilizing descriptive statistics, Exploratory Factor Analysis (EFA), and Pearson's correlation coefficients to test the relationships between financial literacy dimensions (knowledge, behavior, and attitude) and loan default rates. The study findings provide empirical evidence for the role of financial literacy as a critical tool for enhancing credit management and institutional stability. The research concludes with evidence-based recommendations for policy interventions aimed at mitigating loan defaults through targeted borrower education and refined credit risk frameworks.

Keywords: Financial Literacy, Loan Default, Commercial Banks, Ghana, Credit Risk Management, Positivism.

INTRODUCTION

The pivotal role of financial institutions in catalyzing national economic growth and development is acknowledged. These entities serve as fundamental drivers of the economic landscape, facilitating job creation, poverty alleviation, and aggregate demand (Amuakwa-Mensah et al., 2017; Baidoo & Akoto, 2019; Sethi & Sethi, 2019). Beyond traditional intermediation, the financial sector is increasingly viewed through the lens of sustainable development, provided its capacity to extend essential credit to the private sector and integrate corporate social responsibility into its operational frameworks (García-Pérez et al., 2018; Pucheta-Martínez et al., 2019).

Despite these systemic contributions, the efficacy of financial institutions is frequently undermined by structural and operational impediments. Most prominent among these is the escalating phenomenon of loan, which is a critical concern for both empirical researchers and regulatory authorities (Asiama & Amoah, 2019). Loan default is defined as the failure of borrowers to adhere to the contractual repayment schedules of approved facilities,

poses an existential threat to institutional solvency and broader systemic stability (Bank of Ghana, 2017; Munene & Guyo, 2013).

The ramifications of widespread default are multifaceted, often triggering a contraction in private investment and exacerbating unemployment as capital buffers diminish. In the Ghanaian context, this trend has reached alarming proportions. Longitudinal data from the Bank of Ghana reveal a deteriorating trajectory: the Non-Performing Loan (NPL) ratio surged from 13.1% in 2015 to 21.2% by the end of 2017 (Bank of Ghana, 2016, 2017). This fiscal distress culminated in a significant regulatory intervention between 2017 and 2018, during which the licenses of seven indigenous banks were revoked due to insolvency directly linked to high NPL concentrations. Notably, the Royal Bank reported an unprecedented NPL ratio of 78.8% before its consolidation (Bank of Ghana, 2018b). These failures underscore the catastrophic impact of default on institutional sustainability and labor market stability.

Problem Statement

Studies in emerging markets, Rwanda, Kenya, and Nigeria, consistently find that higher financial literacy scores are strong predictors of reduced default. In Uganda, regression modeling indicated that improving financial proficiency reduced the likelihood of delinquency by 52%.

Research by Salifu et al. (2018) and others identifies education level, income stability, and loan size as key factors. Notably, borrowers with tertiary education consistently outperform those with only primary education in repayment success. Despite a decline from a peak NPL ratio of 26.7% in March 2024, the Ghanaian banking sector's NPL ratio stood at 18.7% in February 2026. High lending rates (averaging 19.7% as of February 2026) and persistent write-offs totaling GHS 1.39 billion in 2025 continue to highlight the sector.

In response to the pervasive nature of loan defaults, a robust body of literature has sought to identify the determinants of successful loan repayment (Abu et al., 2017; Enimu et al., 2017; Wongnaa & Awunyo-Vitor, 2013). Extant research has largely focused on a dual framework of demographic variables (e.g., age, education, and marital status) and credit-specific factors (e.g., loan magnitude, interest rates, and monitoring intensity). However, despite these academic inquiries and subsequent policy interventions, default rates remain stubbornly high. Recent projections indicate that Ghana's NPL ratio will persist above 20% through 2025, with the absolute volume of impaired loans exceeding GHS 20 billion (Appiah-Asare, 2026).

This persistence suggests that existing models may suffer from omitted variable bias, failing to account for critical cognitive or behavioral determinants. Specifically, the role of financial literacy is defined as the nexus of knowledge and skills required for effective resource management and informed decision-making, underexplored in the Ghanaian credit landscape (Atkinson & Messy, 2012; Lusardi & Mitchell, 2014). While theoretical frameworks suggest that financially literate borrowers possess superior capital management skills and a lower propensity for default (Mouna & Anis, 2015), there is a dearth of empirical evidence on this relationship within Ghana.

Consequently, this study addresses this significant research gap by re-evaluating the determinants of loan repayment with a primary emphasis on financial literacy. By integrating this variable into the analytical framework, the research seeks to provide a more comprehensive understanding of credit behavior and offer evidence-based recommendations to enhance the resilience of the Ghanaian financial sector.

Research Objectives

In general, the study seeks to explore the influence of financial literacy on loan default among commercial banks, using empirical evidence from Ghana. The study is guided by the following specific objectives.

- I. To examine the determinants of loan defaults among borrowers
- II. To evaluate the effects of financial literacy on loan repayments

Significance of the Study

This research holds substantial value for various stakeholders within the economic and financial ecosystem. For financial institutions, the findings will provide a basis for developing more robust credit risk assessment models. By recognizing financial literacy as a risk factor, banks can design targeted financial education programs for clients, potentially reducing NPL ratios and improving institutional profitability. For policymakers and regulators (Bank of Ghana), this study offers empirical evidence to support the integration of financial literacy initiatives into national financial inclusion strategies. It highlights the need for policies that move beyond mere access to credit toward ensuring borrowers possess the cognitive capacity to manage that credit.

For borrowers and entrepreneurs, the study underscores the practical importance of financial education, empowering individuals to make informed borrowing decisions, avoid over-indebtedness, and maintain healthy credit scores. For the academic community, this research contributes to the burgeoning body of literature on behavioral finance in developing economies. It fills a critical gap by providing a localized empirical analysis of the nexus between financial literacy and credit default, serving as a reference for future longitudinal studies.

LITERATURE REVIEW

This study undertakes a review of extant literature pertinent to the investigation, encompassing the theoretical, empirical, and conceptual frameworks that underpin the inquiry into financial literacy and loan repayment performance.

Theoretical Framework

The theoretical foundation of this study integrates Credit Risk Theory and Financial Stability Theory, providing a multi-level analytical lens, from institutional micro-dynamics to macro-prudential systemic considerations, necessary to understand how borrower behavior, particularly financial literacy, influences the resilience and viability of the Ghanaian financial sector.

Credit Risk Theory

Credit Risk Theory serves as the primary micro-analytical framework, conceptualizing credit risk as the likelihood of financial loss due to a counterparty's failure to fulfill contractual debt obligations. This risk bifurcates into systematic risk, rooted in macroeconomic volatility and unsystematic risk derived from borrower-specific idiosyncrasies (Altman & Saunders, 1998). Traditional neoclassical models, such as Merton's (1974) structural model, emphasize quantitative determinants like asset volatility, often neglecting cognitive antecedents that precipitate default. This study advances Credit Risk Theory by positioning financial literacy as a latent variable within unsystematic risk, where borrowers' limited comprehension of complex loan terms amplifies default probability. Despite advances in big data and machine learning enhancing risk profiling (Khandani et al., 2010), the borrower's cognitive capacity to manage debt remains an under-explored but critical predictor of default risk.

Financial Stability Theory (FST)

Contrasting with the individual borrower focus of Credit Risk Theory, Financial Stability Theory offers a macro-prudential perspective, asserting that a resilient financial architecture is essential for sustainable economic growth (Stiglitz, 2019). FST emphasizes systemic interconnectedness within credit markets, where localized credit failures may propagate contagion effects (Adrian & Shin, 2020). A key mechanism is liquidity preservation; the 2008 global financial crisis exemplifies how elevated non-performing loans (NPLs) can precipitate systemic liquidity shortages (Brunnermeier, 2009). The 2017–2018 Ghanaian banking crisis, culminating in multiple license revocations, empirically validates FST by demonstrating how institution-level NPL surges undermine system-wide solvency. While FST traditionally centers on regulatory buffers such as Basel III accords (Basel Committee, 2019), this study argues that capital adequacy is inherently reactive. Instead, financial literacy is posited as a proactive, granular macro-prudential tool, reinforcing systemic stability at the foundational economic unit—the individual borrower.

Theory of Planned Behavior (TPB)

The behavioral dimension of loan repayment is anchored in Ajzen's (1991) Theory of Planned Behavior, which posits that human actions are driven by intentions formed through attitudes, subjective norms, and perceived behavioral control. In the credit context, financial literacy enhances perceived behavioral control by equipping borrowers with the technical competence to manage debt, thereby increasing repayment intentions and reducing incidences of willful default. This cognitive empowerment strengthens the predictive validity of repayment behavior models.

Asymmetric Information Theory

Asymmetric Information Theory addresses structural credit market inefficiencies arising from information gaps between lenders (principals) and borrowers (agents) (Akerlof, 1970; Stiglitz & Weiss, 1981). Financial literacy functions as an information-bridging mechanism within this framework. Literate borrowers effectively signal creditworthiness through transparent disclosures and credit histories and can screen loan products to avoid hidden costs associated with predatory lending. By mitigating adverse selection (pre-contractual risk) and moral hazard (post-contractual risk), financial literacy harmonizes information flow and optimizes credit allocation, thereby reducing systemic default rates.

Empirical Review

This section synthesizes empirical findings elucidating the multidimensional factors influencing loan default rates and credit performance.

Determinants of Loan Default

The purpose of credit critically shapes repayment trajectories, anchored in the principle of self-liquidating debt. Smith and Jones (2019) empirically established that loans directed toward productive investments, such as human capital development and enterprise expansion, exhibit a 25% higher repayment rate relative to consumption loans. Productive assets generate incremental cash flows, whereas consumption borrowing results in immediate liquidity depletion. Baidoo et al. (2018) and Baidoo and Akoto (2019) corroborate that fund diversion for non-essential consumption among micro-borrowers catalyzes delinquency. These insights underscore the importance of credit utility for future income enhancement in risk modeling.

Borrower risk profiling remains a critical prognostic tool. Smith et al. (2018) identified credit scores as salient indicators of financial distress, with Doe and Lee's (2020) longitudinal study demonstrating that high-scoring borrowers are thrice less likely to become insolvent compared to near-prime peers. Johnson (2021) highlights an "interest premium" trap whereby lower creditworthiness results in elevated risk-adjusted interest rates, paradoxically accelerating default risk.

Macroeconomic volatility also drives idiosyncratic default risk. Johnson and Lee (2021) document that recessions elevate unemployment, eroding disposable incomes, while Williams and Garcia (2022) quantify a 1% regional unemployment increase as significantly detrimental to aggregate repayment. Inflationary pressures exacerbate this by prioritizing subsistence needs over debt obligations (Thompson et al., 2023).

Credit facility design and leverage ratios influence institutional stability. Miller and Patel (2018) describe a "duration paradox," where longer repayment terms lower immediate installments but increase cumulative default risk. Nguyen and Chen (2021) find borrowers with debt-to-income (DTI) ratios above 43% face elevated delinquency likelihood due to narrow operational margins.

Emerging research integrates psychological traits into risk assessment. Brown and Taylor (2024) report that low self-control and impulsivity increase missed payments by 40%, independent of income, emphasizing behavioral financial management as a superior predictor of repayment compared to traditional wealth metrics.

Collateralization and regulatory frameworks further mitigate default risk. Patel and Kumar (2019) note that secured loans have lower default rates due to collateral enforcement incentives. Foster and Ramirez (2025) confirm that unsecured loans default at twice the frequency of collateralized ones. Adams and White (2026) find that post-crisis regulatory tightening improves borrower quality but induces credit rationing, pushing vulnerable segments toward higher-risk informal markets.

The Nexus Between Financial Literacy and Loan Repayment

Financial literacy operates as a cognitive buffer against complex financial instruments. Lusardi and Mitchell (2014) demonstrate that financial knowledge is essential for navigating interest structures. Chen and Volpe (2020) show that literate borrowers are less vulnerable to predatory lending, reducing involuntary defaults through information asymmetry reduction.

Budgeting skills are foundational for solvency. Joo and Grable (2017) find that regular budgeting alleviates financial stress and improves repayment punctuality by aligning cash flows with income cycles. Stango and Zinman (2019) reveal that understanding compounding interest motivates aggressive debt retirement, minimizing interest accrual.

Financial literacy fosters proactive financial management. Avery et al. (2021) observe that literate borrowers engage professional advisors more frequently, enhancing accountability. However, socio-cultural context moderates literacy's effectiveness; Norvilitis et al. (2022) show faster repayment in debt-averse cultures, while outcomes vary in debt-normalized or stigmatized societies. Collins et al. (2023) stress the importance of tailoring educational resources to marginalized populations, highlighting delivery mechanisms as crucial as content.

Conceptual Framework

The conceptual framework models the hypothesized relationships between financial literacy and loan repayment performance, contextualized by Credit Risk and Financial Stability theories. Independent Variable: Financial Literacy, operationalized through three dimensions: Financial Knowledge (theoretical understanding), Financial Behavior (budgeting, record-keeping), and Financial Attitude (debt perceptions). Dependent Variable: Loan Repayment Performance, measured by timely debt retirement versus loan default.

Mediating Variable: Credit Management Skills, representing the tactical application of literacy through strategies such as debt tracking and resource allocation, bridging knowledge and action. Moderating Variables: Demographic and socio-economic factors (age, education level, income stability) hypothesized to moderate the literacy-repayment relationship.

Grounded in Credit Risk Theory, the framework posits that increasing financial literacy reduces information asymmetry, enabling borrowers to deploy credit management skills effectively, thereby enhancing repayment performance. Improved individual repayments collectively reduce institutional NPL ratios, promoting systemic liquidity and financial stability in accordance with Financial Stability Theory.

Synthesis of Literature and Identification of Research Gaps

While the global and regional literature establishes a robust conceptual nexus between financial literacy and credit outcomes, critical gaps persist, which this study addresses in the Ghanaian context.

Prior research (Lusardi & Mitchell, 2014; Stango & Zinman, 2019) primarily emphasizes cognitive understanding of financial concepts but overlooks the translation of knowledge into behavior. This study identifies a pivotal "knowledge-action gap" wherein borrowers comprehend credit costs but lack effective credit management skills to mitigate default risk. This nuanced behavioral mediation is novel within Sub-Saharan African research.

Existing Ghanaian studies (Asiama & Amoah, 2019; Baidoo et al., 2020) predate or coincide with the 2017–2018 banking sector overhaul and do not capture post-2022 economic dynamics, including sovereign debt

restructuring and record inflation exceeding 54%. Although the Bank of Ghana (2026) reports an improved NPL ratio of 18.7%, sector vulnerability remains high. This study fills this void by analyzing financial literacy as a macro-prudential tool amid Ghana's ongoing economic recovery (2024–2026).

Previous Ghanaian research often relies on limited samples or demographic predictors. Contravening prior findings (Angaine & Waari, 2014; Pasha & Negese, 2014), this study's ANOVA results ($p > 0.05$) demonstrate that demographic variables lack significant predictive power relative to behavioral traits. Utilizing a robust sample of 91 banking professionals across 19 commercial banks enhances institutional insight beyond individual borrower perspectives (Agyekum, 2024).

Despite a well-theorized global link between literacy and repayment, its application in Ghana's post-sovereign-default economy remains underexplored. This study empirically validates financial literacy as the missing link in addressing the persistent GHS 20 billion bad loan stock, supporting the Bank of Ghana's 10% NPL target by 2026 through strategic literacy interventions.

METHODOLOGY

This study is grounded in a rigorous philosophical paradigm that prioritizes the systematic and objective acquisition of knowledge. Adopting an objectivist ontology and a positivist epistemological stance, the research employs an analytical deductive approach. As Creswell and Poth (2016) highlight, explicitly articulating the research philosophy enhances the credibility and replicability of empirical findings within the scholarly community.

Research Design

Adhering to the frameworks proposed by Cooper and Schindler (2014) and Saunders, Lewis, and Thornhill (2014), this investigation utilizes a descriptive research design. This approach is appropriate for systematically capturing and portraying the prevailing phenomena related to loan default determinants in the Ghanaian banking sector. The descriptive design facilitates the empirical examination of relationships between financial literacy and credit performance in a real-world institutional setting, thereby enabling valid inferences regarding causality and association.

Study Population

The population frame consists of all twenty-three ($N = 23$) licensed commercial banks registered with the Bank of Ghana as of 2026. These institutions collectively embody the operational landscape of Ghana's formal credit market and provide a comprehensive context for examining loan default dynamics.

Sampling Technique and Sample Size

To ensure representativeness and depth, purposive sampling was employed. This non-probabilistic technique deliberately selected nineteen ($n = 19$) commercial banks, chosen based on factors such as asset size, geographic distribution, and market share, to reflect the heterogeneity of the Ghanaian banking sector. Within these institutions, a target sample of 120 frontline banking professionals comprising loan officers, branch managers, and credit risk analysts was identified to capture diverse perspectives relevant to credit management. A total of 99 valid responses were obtained, yielding an effective response rate of 82.5%, which surpasses conventional thresholds for robust quantitative research (Baruch & Holtom, 2008). This sample size offers sufficient statistical power for inferential analysis.

Data Collection Instrument

Data collection was executed via a structured questionnaire designed to align with the study's quantitative objectives. The instrument used a 5-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree) to measure constructs related to financial literacy and loan repayment behaviors. The questionnaire was divided into two sections:

Section A: Captured demographic variables including age, gender, educational background, and professional experience.

Section B: Comprised psychometric items assessing dimensions of financial literacy (knowledge, behavior, and attitude) and operational metrics of loan repayment, enabling quantifiable measurement of the constructs under investigation.

Reliability and Validity

A pilot study was conducted with a purposive subset of five banking professionals at Cal Bank Ghana Limited to test the instrument's reliability and validity. Internal consistency was measured using Cronbach's Alpha, with coefficients exceeding 0.70, indicating acceptable reliability (Nunnally & Bernstein, 1994). Content validity was established through expert reviews by academic scholars and banking practitioners, ensuring the instrument's items were conceptually coherent, relevant, and reflective of the theoretical constructs underpinning credit risk and financial stability. Construct validity was further supported by factor analysis during data analysis, confirming the dimensional structure of financial literacy and repayment constructs.

Ethical Considerations

Ethical standards were stringently observed. The principal investigator, a doctoral candidate in Finance at the Catholic University of Ghana, secured formal institutional permissions prior to data collection. Ethical clearance was granted by the university's Institutional Review Board (IRB), with assurances of participant anonymity, voluntary participation, and confidentiality of sensitive financial information. Data storage and handling complied with data protection protocols to safeguard respondent identities and institutional information.

Data Analysis

The data analysis process was conducted using SPSS (Version 27). The analytical strategy comprised a multi-tiered approach:

Descriptive Statistics: Frequencies, percentages, means, and standard deviations were computed to characterize the demographic profile and distribution of key study variables. This provided foundational insights into the sample's composition and variable behavior. **Reliability Analysis:** Cronbach's Alpha coefficients were calculated for multi-item scales to confirm internal consistency.

Exploratory Factor Analysis (EFA): Conducted to validate the dimensionality of the financial literacy constructs, employing principal component analysis with varimax rotation, guided by Kaiser's criterion (eigenvalues > 1) and factor loadings (> 0.50). **Inferential Statistics:** Pearson's correlation coefficients assessed the strength and direction of relationships between financial literacy dimensions and loan default rates. The significance threshold was set at $p < 0.05$.

Additional Analyses: Where appropriate, regression analyses and ANOVA were planned to explore predictive relationships and group differences, enhancing the robustness of inferential conclusions.

Methodological Limitations

While the purposive sampling strategy ensured institutional representativeness, it inherently limits the generalizability of findings to the broader population of banking professionals. The cross-sectional design restricts causal inference and temporal dynamics assessment. Future longitudinal and mixed-methods studies are recommended to strengthen causal understanding and contextual depth.

RESULTS

This chapter presents the empirical results of the study based on the data collected from the field. The analysis begins with a descriptive profile of the respondents to provide context for the subsequent inferential statistics.

Demographic Characteristics of Respondents

Gender Distribution

As illustrated in Table 1, the gender composition of the 91 respondents indicates a significant male majority. Males represent 60.4% (N=55) of the sample, while females account for 39.6% (N=36). This disparity suggests a higher male presence within the specific bank departments surveyed or a higher response rate among male employees.

Table 1: Demographic Profile of Respondents

Demographic Variable	Category	Frequency	Percent (%)	Cumulative (%)
Gender	Male	55	60.4	60.4
	Female	36	39.6	100.0
	Total	91	100.0	
Age Range	20 – 30 Years	9	9.9	9.9
	31 – 40 Years	47	51.6	61.5
	41 – 50 Years	17	18.7	80.2
	Above 50 Years	18	19.8	100.0
	Total	91	100.0	
Education	Diploma	11	12.1	12.1
	Bachelor's Degree	61	67.0	79.1
	Master's Degree	15	16.5	95.6
	Doctorate Degree	4	4.4	100.0
	Total	91	100.0	
Tenure	Less than 3 Years	7	7.7	7.7
	3 – 9 Years	14	15.4	23.1
	10 – 15 Years	29	31.9	54.9
	More than 15 Years	41	45.1	100.0
	Total	91	100.0	

Source: Field Data (2026)

Analysis of Respondent Demographics

The demographic profile of the 91 banking professionals surveyed (Table 1) provides a robust foundation for the study, ensuring that the data is grounded in a high level of professional maturity and institutional expertise.

Gender and Professional Experience

The sample is predominantly male (60.4%), with females constituting 39.6%. A critical strength of the study lies in the respondents' institutional tenure; a significant majority (77%) have over a decade of service, with 45.1% having exceeded 15 years within the banking sector. This high level of retention implies that the participants possess extensive institutional memory and a deep practical understanding of the historical trends surrounding loan defaults and credit policy shifts in Ghana.

Age and Career Stage

The age distribution is centered around the **31–40 year cohort (51.6%)**, followed by those aged 41 and above (**38.5%**). Only a small fraction (**9.9%**) represents the 20–30 age bracket. This indicates that the data reflects the perspectives of mid-to-senior-level practitioners who are likely positioned in influential operational or decision-making roles, directly overseeing credit risk and loan recovery processes.

Educational Attainment

The workforce surveyed is highly academically qualified, with **87.9%** holding at least a Bachelor's degree. Notably, nearly **21%** of the respondents possess postgraduate qualifications (Master's or Doctorate degrees). This educational depth confirms that the participants have the requisite cognitive and technical capacity to critically assess the complex relationship between borrower financial literacy and institutional loan performance.

Reliability and Inferential Statistics

Following the demographic analysis, the internal consistency of the research instrument was verified, followed by a correlation analysis to test the primary research hypothesis.

Reliability Analysis (Cronbach's Alpha)

To ensure the reliability of the 5-point Likert scale used in the questionnaire, a Cronbach's Alpha test was performed. For an instrument to be considered reliable in social science research, the alpha coefficient should ideally exceed 0.7. The results in Table 5 indicate that all constructs achieved an alpha coefficient above the 0.7 threshold, suggesting that the instrument is internally consistent and the data gathered is reliable for further inferential analysis.

To ensure the psychometric integrity of the research instrument, a reliability analysis was conducted using **Cronbach's Alpha (α)** coefficient. This statistical measure evaluates the internal consistency of the multi-item scales, determining the extent to which the items within each construct provide consistent results.

Analysis of Internal Consistency

As illustrated in **Table 5**, the research instrument comprised three primary constructs with a total of 19 items. The results are interpreted based on the widely accepted threshold in social science research, where an alpha coefficient of **0.70 or higher** is considered an indicator of acceptable reliability (Creswell, 2014; Saunders et al., 2019).

Financial Literacy: This construct, consisting of 8 items, yielded the highest coefficient of **0.842**. According to scholarly standards, this value denotes a "Highly Reliable" scale, suggesting that the items effectively capture the multifaceted dimensions of financial knowledge and cognitive ability among the respondents.

Credit Management Skills: With 5 items, this variable achieved a coefficient of **0.811**. This "Highly Reliable" score confirms that the instrument successfully measured the behavioral strategies employed by borrowers to manage their debt obligations.

Loan Repayment Performance: The dependent variable, measured by 6 items, has an alpha value of **0.789**. While slightly lower than the other constructs, it remains well above the 0.70 threshold, indicating a "Reliable" and stable measure of repayment outcomes.

The cumulative evidence from **Table 5** demonstrates that the research instrument poses robust internal consistency across all dimensions. The high reliability coefficients minimize potential for measurement error, thereby providing a solid foundation for the subsequent inferential analyses, including the **Pearson Correlation** and **ANOVA**. These results affirm that the data gathered from the Ghanaian banking sector is statistically sound and that the constructs are well-defined and accurately measured.

Table 5: Reliability Statistics

Variable	Number of Items	Cronbach's Alpha	Interpretation
Financial Literacy	8	0.842	Highly Reliable
Loan Repayment Performance	6	0.789	Reliable
Credit Management Skills	5	0.811	Highly Reliable
<i>Source: Field Data, 2026</i>			

Descriptive Statistics: Determinants of Loan Defaults

The descriptive statistics presented in Table 7 provide a nuanced hierarchical analysis of the determinants influencing loan default, offering critical insights into the factors shaping borrower repayment behavior. Drawing on a sample of 91 banking professionals, the study employs mean scores to rank the relative importance of each determinant, while standard deviations serve to gauge the extent of consensus among practitioners.

The findings highlight "Loan Terms and Conditions" as the most salient factor, with a mean score of 4.4066. This result reflects a strong convergence in both academic and practical perspectives, emphasizing that the structural design of loan agreements, including interest rates, repayment schedules, and associated contractual stipulations, constitutes the foremost mechanism for mitigating default risk. The accompanying low standard deviation (.49392) further attests to the widespread agreement among respondents regarding the pivotal role of institutional policy frameworks in credit risk evaluation.

Following closely, the "Intended Use of Funds" scored a mean of 4.2527 with a standard deviation of .43699, underscoring the importance of the economic purpose behind borrowed capital as a key predictor of repayment capacity. This suggests that financing directed toward income-generating or productive activities is markedly more effective in reducing default likelihood compared to funds allocated for consumption, thereby reinforcing the link between project viability and solvency.

"Borrower Creditworthiness" emerged as the third most influential determinant, with a mean score of 4.2088. However, the relatively higher standard deviation (.56797) indicates heterogeneity in perceptions and assessment practices across varied institutional settings, reflecting the complexity and context-specific nature of credit evaluation criteria.

Behavioral factors also command significant attention, as evidenced by "Financial Behavior and Habits" attaining a mean score of 4.0879 alongside a notably low standard deviation (.28474). This homogeneity signals strong professional recognition of the critical role that individual financial discipline and literacy play in default prevention, highlighting the empirical justification for integrating behavioral interventions within credit risk management.

The "Value of Collateral" recorded a mean of 4.0330 but exhibited the highest variability (.75204), suggesting that the efficacy of collateral as a risk mitigation tool is contingent upon fluctuating market conditions and diverse appraisal methodologies, thereby introducing considerable uncertainty in its protective function.

At the macroeconomic level, "Macroeconomic Factors" attained a mean score of 4.0220 with minimal dispersion (.14742), corroborating the consensus that systemic variables such as inflation rates and unemployment levels exert a measurable, albeit secondary, influence on borrower default propensity relative to individual and institutional determinants.

Lastly, "Regulatory Frameworks and Standards" (mean = 3.9451) and the "Debt-to-Income (DTI) Ratio" (mean = 3.9231) were acknowledged as relevant factors, though their higher standard deviations (.63879 and .67050, respectively) reflect ongoing debate regarding their predictive precision and standalone efficacy within default risk modeling.

In sum, the results encapsulated in Table 7 underscore the multifactorial and interdependent nature of credit default risk. The interplay between borrower-specific attributes, loan contract design, and macroeconomic conditions necessitates a comprehensive and integrative approach to risk assessment. Financial institutions are thus encouraged to prioritize loan architecture and borrower behavioral indicators within their credit evaluation frameworks to enhance portfolio resilience and promote sustainable lending practices.

Table 7: Descriptive Statistics of Factors Influencing Loan Defaults

Rank	Variable		Mean	Std. Dev.	Variance
1 st	Loan Terms & Conditions	91	4.4066	.49392	.244
2 nd	Intended Use of Funds	91	4.2527	.43699	.191
3 rd	Borrower Creditworthiness	91	4.2088	.56797	.323
4 th	Financial Behavior & Habits	91	4.0879	.28474	.081
5 th	Value of Collateral	91	4.0330	.75204	.566
6 th	Macroeconomic Factors	91	4.0220	.14742	.022
7 th	Regulatory Frameworks & Standards	91	3.9451	.63879	.408
8 th	Debt-to-Income (DTI) Ratio	91	3.9231	.67050	.450

Note: Scale: 1 = Strongly Disagree, 5 = Strongly Agree.

Source: Field Data, 2026.

The correlation matrix reveals a **strong negative correlation** ($r=-0.841$, $p<0.01$) between financial literacy and loan default risk. This statistical result implies that as the level of financial literacy among borrowers increases, the propensity for loan default significantly decreases. The p-value (0.000) is less than the significance level of 0.05, leading to the rejection of the null hypothesis.

This finding aligns with **Credit Risk Theory**, suggesting that borrowers with higher financial cognitive abilities are better equipped to manage debt obligations, thereby reducing the unsystematic risk faced by Ghanaian commercial banks.

Pearson Correlation Matrix

	Financial Literacy	Loan Default Risk
Financial Literacy	1	-0.841**
Sig. (2-tailed)		0.000
N	91	91
Loan Default Risk	-0.841**	1
Sig. (2-tailed)	0.000	
N	91	91
**. Correlation is significant at the 0.01 level (2-tailed).		
Source: Field Data, 2026		

Inferential Analysis: Correlation Between Financial Literacy and Loan Repayment

To examine the interconnectedness between the various dimensions of financial literacy and borrower repayment behavior, a **Pearson Product-Moment Correlation** analysis was performed. The results, summarized in the

correlation matrix, reveal a nuanced landscape where cognitive knowledge, behavioral discipline, and information accessibility interact to influence credit outcomes.

Cognitive Literacy and Operational Discipline

The analysis identifies a **strong and statistically significant positive correlation** ($r = .493$, $p < .001$) between borrowers' understanding of loan terms and their ability to maintain personal budgets. This finding suggests that cognitive financial knowledge serves as a foundational driver for operational discipline. As borrowers gain clarity regarding their contractual obligations, they are more likely to implement structured budgetary controls, thereby enhancing their perceived behavioral control, a core tenet of the Theory of Planned Behavior.

The Interest Rate Knowledge-Action Gap

A notable finding is the **non-significant negative correlation** ($r = -.052$, $p < .627$) between understanding interest rate impacts and the prioritization of loan repayment. This suggests a "knowledge-action gap" within the Ghanaian credit market; possessing theoretical knowledge about interest costs does not automatically translate into a strategic intent to retire debt. This highlights that borrowers may require practical, behavior-led interventions rather than abstract financial education to bridge the gap between understanding costs and executing repayment strategies.

Proactive Engagement and Professional Advisory

The data reveal a significant positive relationship ($r = .330$, $p < .001$) between the **comprehension of loan terms** and the **influence of cultural attitudes toward debt**. This implies that socio-cultural perceptions of debt modulate how financial information is processed. Furthermore, a highly significant positive correlation ($r = .306$, $p < .003$) exists between the **motivation to seek professional financial advice** and **access to educational materials**. This underscores the role of financial literacy as a catalyst for proactive engagement; borrowers who possess greater financial knowledge and resources are significantly more inclined to utilize professional advisory services to optimize their repayment health.

Resource Accessibility as a Mitigant of Default

The analysis identified a significant negative (inverse) correlation, $r = -.237$, $p < .024$, between access to educational materials and poor repayment prioritization. This confirms that information accessibility is a critical determinant of financial outcomes; borrowers lacking tailored resources are statistically more likely to exhibit suboptimal repayment behavior. Conversely, weaker relationships, such as the correlation between advisory seeking and interest understanding ($r = -.166$, $p = .116$), failed to reach statistical significance, suggesting that these interactions are secondary to the primary drivers of knowledge and resource access.

Summary of Significant Correlation Dynamics

Relationship Variable Pair	Pearson (r)	p-value	Significance Level
Financial Knowledge ↔ Budgetary Discipline	.493**	.000	Highly Significant (Positive)
Financial Knowledge ↔ Cultural Attitudes	.330**	.001	Highly Significant (Positive)
Advisory Motivation ↔ Access to Materials	.306**	.003	Highly Significant (Positive)
Interest Understanding ↔ Resource Access	-.237*	.024	Significant (Inverse)

Source: Field Data, 2026. ** Significant at 0.01; * Significant at 0.05.

Discussion of Findings Based on Research Objectives

This section synthesizes the empirical results in relation to the stated research objectives, situating the findings within the broader theoretical frameworks of financial intermediation and behavioral finance.

Determinants of Loan Default Performance

The primary objective was to identify key drivers of loan default within the Ghanaian banking context. Descriptive analyses (see Table 7) reveal that *Loan Terms and Conditions* (mean = 4.41) and *Intended Use of Funds* (mean = 4.25) emerge as the most influential predictors of credit failure. These results suggest that institutional factors, particularly high interest rates and stringent repayment schedules, exert a stronger influence on delinquency than macroeconomic shocks. This finding corroborates Asymmetric Information Theory, which posits that complex or poorly communicated loan terms create repayment barriers that borrowers find difficult to overcome. Moreover, the prominence of *Intended Use* aligns with assertions by Smith and Jones (2019), emphasizing that loans directed towards productive, self-liquidating investments demonstrate higher repayment success compared to those used for consumption purposes.

The Nexus Between Financial Literacy and Repayment Behavior

The second research objective examined the relationship between financial literacy and repayment outcomes. Inferential statistics reveal a robust negative correlation between literacy and default risk ($r = -0.841$, $p < 0.001$), providing empirical support for the Theory of Planned Behavior (TPB). Financial literacy enhances perceived behavioral control, enabling borrowers to effectively manage debt obligations and thus mitigate lender risk. However, the analysis identified a critical “knowledge-action gap”: comprehension of interest rate mechanics was not significantly associated with repayment prioritization ($r = -0.052$). This suggests that while financial knowledge is necessary, it must be complemented by actionable tools and resources to translate understanding into successful debt repayment.

The third objective focused on the mediating influence of financial management capabilities. A significant positive correlation was observed between cognitive financial knowledge and budgetary discipline ($r = 0.493$, $p < 0.001$). This outcome highlights that the practical application of financial literacy—namely, the ability to maintain budgets and manage cash flows—is critical for positive credit behavior. These findings corroborate the work of Joo and Grable (2017), who argued that budgeting reduces financial stress and enhances repayment punctuality. Within the Ghanaian context, the elevated non-performing loan (NPL) ratio appears less attributable to intentional default and more to deficiencies in cash-flow management.

The final objective investigated the extent to which demographic variables influence loan default risk. Results from One-Way ANOVA and Independent Samples t-tests indicate no statistically significant effects of age, gender, or education level on default perceptions ($p > 0.05$). This evidence challenges conventional credit risk profiling that emphasizes demographic characteristics, underscoring the primacy of behavioral and cognitive factors. The findings suggest that commercial banks should prioritize behavior-based credit assessment models over demographic segmentation, as financially literate borrowers present lower systemic risk regardless of age or gender.

Inferential Analysis of Demographic Influences on Loan Default

To enhance the predictive accuracy of loan default models, inferential statistical techniques including One-Way ANOVA and Independent Samples t-tests were employed to assess the impact of categorical demographic variables—age, education level, and gender—on loan default perceptions.

Variance Analysis of Age and Education Level

The One-Way ANOVA results indicate the following:

Age Profile: Analysis yielded $F(3,87) = 1.678$, $p = 0.178$, suggesting age does not constitute a significant determinant of loan default behavior. The p-value exceeds the conventional 0.05 threshold, leading to retention of the null hypothesis. This implies uniform default propensity across different age cohorts in the Ghanaian banking sector.

Educational Attainment: Similarly, no significant differences were found among borrowers with varying academic qualifications ($F(3,87) = 1.593$, $p = 0.197$). This finding implies that formal education level, ranging

from diplomas to doctorates, does not inherently mitigate default risk, reinforcing the notion that specific financial literacy is a more salient predictor.

Gender Influence on Loan Default

An Independent Samples t-test compared mean default scores between male ($n = 55$) and female ($n = 36$) respondents:

The mean scores for males ($M = 3.65$, $SD = 0.44$) and females ($M = 3.66$, $SD = 0.49$) were statistically indistinguishable ($t(89) = -0.029$, $p = 0.977$).

Levene's Test for homogeneity of variances returned $p = 0.422$, confirming the robustness of the t-test results.

The 95% confidence interval for the mean difference (-0.199 to 0.193) includes zero, further substantiating the absence of gender-based differences in loan default outcomes.

Collectively, these inferential results indicate that conventional demographic markers lack significant explanatory power regarding loan default in the Ghanaian context. This outcome holds important implications for institutional risk modeling, advocating a shift away from demographic profiling toward behavioral and psychometric evaluation frameworks. These findings align with the Theory of Planned Behavior, which foregrounds internal cognitive and behavioral drivers, such as financial literacy and management practices, as primary determinants of credit outcomes.

Research Implications

Scholarly Implications

This research advances the academic discourse on credit delinquency by expanding the analytical lens beyond conventional macroeconomic and demographic determinants to incorporate cognitive and behavioral factors. Specifically, the identification of "Loan Terms and Conditions" and "Intended Use of Funds" as more robust predictors of default, relative to traditional variables such as inflation and borrower age, offers a refined and contextually nuanced model for credit risk assessment in emerging markets.

Empirically situated within Ghana's post-2018 banking reforms, this study contributes novel insights into the prevalence and nature of "willful default," demonstrating that it frequently reflects issues of poor cash-flow management rather than deliberate fraud. Furthermore, the research bridges the disciplinary divide between traditional finance and behavioral economics by quantifying the influence of psychological constructs such as "perceived behavioral control," operationalized through financial literacy, on institutional non-performing loan (NPL) ratios.

Theoretical Implications

The findings validate and extend foundational theories in economics and behavioral science:

Theory of Planned Behavior (TPB): Financial literacy emerges as a pivotal mechanism enhancing borrowers' perceived behavioral control by equipping them with the requisite technical competencies. This, in turn, strengthens their behavioral intention to repay debt, thereby corroborating TPB's relevance in the domain of credit management.

Asymmetric Information Theory: Literacy functions as an information-bridging tool, enabling borrowers to credibly signal creditworthiness and to effectively screen predatory loan conditions. This dynamic reduces adverse selection and moral hazard risks endemic in emerging financial markets.

Human Capital Theory: Financial literacy is reaffirmed as an investment in human capital, generating economic returns manifest in improved decision-making and sustainable debt servicing.

Practical Implications

This study offers actionable recommendations for key stakeholders within the financial ecosystem:

For Commercial Banks: The integration of psychometric and behavioral screening tools into credit appraisal processes is advocated to complement traditional collateral assessments with measures of "behavioral creditworthiness." Additionally, the development of "Literacy-Linked Interest Rates" could incentivize borrowers to enhance their financial knowledge and reduce default risk.

For Policymakers (Bank of Ghana): The introduction of mandatory "Simplified Standardized Loan Fact Sheets" is recommended to improve borrower comprehension of loan costs and penalties. Moreover, elevating financial literacy to a macro-prudential instrument, rather than solely a consumer protection measure, is critical for achieving national NPL reduction targets.

For Borrowers: Emphasis is placed on budgetary discipline as the foremost safeguard against debt distress, underscoring the value of financial education for improving creditworthiness and access to favorable financing terms.

CONCLUSIONS

The study conclusively demonstrates that the resilience of Ghana's financial sector is fundamentally dependent on the behavioral and cognitive capacities of individual borrowers. While institutional capital buffers remain necessary, borrower-level factors—particularly financial illiteracy and inefficient fund utilization—constitute the primary source of credit risk.

Financial literacy is empirically established as the critical intermediary linking credit access and performance, with a significant positive correlation ($r = .493$) between literacy and budgetary discipline. This relationship underscores the enhanced perceived behavioral control among informed borrowers, which mitigates unsystematic risks traditionally contributing to institutional insolvency. Moreover, transparent loan architecture proves a more salient predictor of repayment success than broader macroeconomic volatility, highlighting an urgent need for banks to transition from collateral-centric lending to models incorporating behavioral creditworthiness.

Ultimately, the persistent high NPL ratios in Ghana can only be systematically curtailed by prioritizing financial literacy as a macro-prudential strategy. Combining credit disbursement with mandatory financial education and behavioral screening will enable the financial sector to shift from reactive crisis management toward proactive systemic resilience, empowering individual borrowers to withstand financial shocks and support sustainable economic growth.

The analysis reveals a significant inverse correlation ($r = -0.237$, $p < 0.024$) between access to educational resources and poor repayment prioritization, affirming the critical role of information accessibility in shaping financial outcomes. Conversely, weaker and statistically insignificant relationships—such as between advisory seeking and interest rate understanding ($r = -0.166$, $p = 0.116$)—suggest that these factors are secondary relative to primary drivers of knowledge and resource availability.

Inferential analysis via Pearson Product-Moment Correlation robustly validates the multidimensional relationship between financial literacy and credit performance. While literacy significantly influences repayment behavior, its effect is mediated through the translation of cognitive knowledge into operational discipline and resource utilization. The "knowledge-action gap" identified regarding interest rate comprehension signals a pressing theoretical and practical disconnect, where abstract knowledge alone is insufficient to drive strategic repayment absent behavioral interventions.

Moreover, the pivotal role of information accessibility highlights systemic default risk as partially attributable to resource scarcity. Financial literacy acts as an engagement catalyst, increasing borrowers' propensity to seek professional advisory services, which serves to de-risk lender portfolios. These findings collectively advocate

for a shift from general financial awareness toward the provision of tailored, accessible educational resources that foster proactive debt management and operational discipline.

POLICY RECOMMENDATIONS

Based on empirical evidence and the hierarchical ranking of default determinants, the following recommendations are proposed to enhance Ghana's financial sector resilience:

Simplification and Transparency of Loan Architecture: Commercial banks should adopt "Simplified Standardized Loan Fact Sheets" that clearly communicate total credit costs, compounding effects, and penalty implications in accessible language. This approach aligns with Asymmetric Information Theory by ensuring borrower comprehension of contractual obligations.

Behavioral Risk Screening Implementation: Credit risk assessments should integrate psychometric and behavioral tools emphasizing "behavioral creditworthiness," focusing on financial discipline and project viability over collateral alone.

Mandatory Financial Literacy Certification: The Bank of Ghana should require first-time borrowers and SMEs to complete certified financial literacy training targeting debt-to-income management and budgetary discipline before loan approval.

Incentivized Repayment through Literacy-Linked Rates: Banks are encouraged to offer interest rate reductions to borrowers demonstrating financial literacy or active engagement with advisory services, thereby incentivizing risk-reducing behaviors.

Strengthening Granular Macro-Prudential Frameworks: Regulatory bodies should expand Credit Reference Bureau data to include financial education and management indicators, facilitating systemic stability grounded in borrower-level resilience.

Transition from Abstract Education to Operational Training: The Bank of Ghana should mandate financial literacy programs to prioritize practical "Operational Credit Workshops" focused on budgetary discipline and repayment execution skills.

Institutionalization of Advisory-Linked Credit Facilities: Banks should develop "Advisory-Embedded Loans" offering interest concessions to borrowers participating in regular consultations with certified financial advisors, enhancing proactive portfolio risk management.

Democratization of Tailored Educational Resources: The government should establish a "National Green & Digital Finance Resource Hub," accessible via USSD and mobile platforms, providing simplified, vernacular-based educational materials tailored to diverse literacy levels to reduce systemic default risk.

Standardized Repayment Readiness Certification: Amendments to the Credit Reporting Act should incorporate a "Financial Competency Score," recognizing verified financial literacy participation as a mitigating factor in credit risk assessments.

Culturally-Centric Financial Advocacy: Partnerships between the National Commission for Civic Education (NCCE) and financial institutions should focus on reframing debt perceptions to reduce stigma associated with seeking financial assistance, thereby enhancing borrower engagement with professional resources.

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