



**EFFECTS OF LOAN DEFAULT ON FINANCIAL PERFORMANCE IN COOPERATIVE THRIFT AND CREDIT SOCIETIES IN KWARA-STATE NIGERIA**

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**ABSTRACT**

The study investigated the impact of loan default on financial performance of Cooperative Thrift and Credit Societies (CTCSs) in Kwara-State of Nigeria. Specifically, it examined how employment instability and financial distress. Primary data were obtained through structured questionnaires and interviews with CTCS management, lending committees, trustees, and members. Out of 198 instruments distributed, 191 valid responses were analyzed using both descriptive and inferential statistical tools, including frequency distributions and multiple regression analysis. Demographic findings revealed that 52.0% of respondents were female, and 86.9% were married. The average age was 31 years, with an average of 13 years' experience in cooperative participation. More than half (51.8) of the respondents had formal education, with an average household size of six. Additionally, 52.8% of the respondents had been members for 6 to 10 years, and 90.0% held membership roles, indicating strong engagement and potential influence on cooperative operations. Regression results indicated that employment instability, particularly unemployment (coefficient =  $-.677$ ,  $p = 0.030$ ) and irregular income (coefficient =  $-.342$ ,  $p = 0.020$ ), significantly increased loan default risk. Financial distress, reflected in frequent emergency loan requests, negatively affected interest income which affects financial stability of members which reduces repayment rates decline, the cooperative earns less interest from loans, directly affecting its financial sustainability. It is therefore recommended that cooperatives enforce stricter loan eligibility criteria and implement structured debt repayment plans.

**Keywords:** Loan, Default, Financial, Performance, Cooperative, Credit

**INTRODUCTION**

In many developing economies, Cooperative Thrift and Credit Societies (CTCSs) are indeed key drivers of economic development, especially where such societies address financial needs for under-served sections. They are very instrumental in facilitating access to credit, instilling savings behavior, and enhancing economic well-being among members in Nigeria. Kyazze *et al.* (2020,) asserted that credit is the availability of goods and services on credit, with the agreement to make payments at some future date. CTCS fills this role by filling in the financial gaps for people and communities excluded from conventional banking systems, such as rural residents, small-scale entrepreneurs, and low-income groups. They empower marginalized groups to participate actively in the economy through tailored savings and credit facilities. Ajayi *et al.*, (2021) noted that the reluctance or inability of banks to grant credit facilities to individuals, in most cases without sufficient collateral security, has awakened the need to have social enterprises like cooperative societies for essential support of persons with urgent economic and social needs. CTCS plays a pivotal role in fostering financial discipline among members, encouraging regular savings, and utilizing pooled funds to offer loans. These loans enable members to invest in projects and it also includes those that create ongoing income and spur community development. Secondly, CTCS makes significant contributions to poverty reduction through access to finance for poor households. This reduces income disparity and improves



living standards while helping members manage financial risk through emergency loans, insurance, and other financial services, hence a safety net that contributes to increase resilience against economic shocks. In agricultural-based economies, the CTCS has proved very instrumental in providing farmers with the necessary capital to invest in high-quality seeds, fertilizers, and tools. This no doubt has increased agricultural output, ensured food security, and promoted economic stability.

The transformational impact of CTCS is highly felt within the North Central region of Nigeria, whereby cooperative societies are actively into agricultural, small-scale enterprise ventures, and household needs. However, their operations are increasingly being beset by challenges, especially loan defaults, which threaten their financial stability, operational sustainability, and ability to effectively meet member needs. According to Baidoo *et al.* (2020), loan defaults often lead to liquidity crises, loss of trust among members, and restricted credit availability, which in the long run threatens the viability of these institutions. Loan default remains a persistent challenge that significantly impacts the financial performance of CTCS. Despite their vital role in delivering affordable financial services to members, these societies struggle to maintain liquidity and operational stability due to high levels of non-performing loans. This issue is further compounded by inadequate credit appraisal processes, weak borrower monitoring systems, and insufficient enforcement mechanisms for loan recovery. The consequences of loan defaults are far-reaching, as they limit the ability of CTCS to disburse new loans, meet members withdrawal demands, and achieve long-term sustainability. Ultimately, this threatens their core mission of promoting financial inclusion and empowering members economically. Adebola and Alabi (2024) carried out a research on impact of loan default on the financial performance of cooperative thrift and credit societies in Nigeria from 2020 to 2023 through analysis and histories from several cooperatives societies and panel data was used for the analysis. The results of findings were based on higher loan default rates significantly impair the ability of cooperative to meet their financial obligations and hinder long-term growth. Adetayo and Eze (2024) investigated a research on loan default on financial stability in cooperative societies during post-pandemic in Nigeria between 2020 to 2025 and 80 cooperative societies and panel analysis were used for the study areas. The study revealed that loan default significantly eroded capital reserves and member equity. Adeyemi and Nwankwo (2024) carried out research on economics shocks, loan defaults, and cooperative society performance in Nigeria. This study analyzes data from 2020 to 2024 and panel analysis was used. The findings revealed that cooperatives with diversified loan portfolios experienced lower default rates and sustained better financial performance. Adeyemi and Olaniyi (2023) investigated research on Loan Default and Financial Sustainability of Cooperative Societies in Southwest Nigeria. Data were collected through 45 cooperative societies from 2020 to 2024 using multiple regression analysis. The result shows that high loan default rates significantly reduced the net surplus and reserves fund accumulation.

The broad objective of this study is to investigate the effect of loan defaulting on the financial performance of Cooperative Thrift and Credit Societies in the North Central States of Nigeria. The specific objectives are to: examine the effect of employment instability on the members' loan turnover rate of CTCS. and appraise the effect of financial distress on the interest received on a loan of CTCS.

## **METHODOLOGY**

### **Study Area**

The study area is Kwara State which is located in the North Central Geo-Political Zone of Nigeria and was established on May 27, 1967, during the regime of General Yakubu Gowon. Initially comprising the former Ilorin and Kabba provinces of the Northern Region, the state was first named the "West Central State" before being renamed "Kwara," derived from a local name for the River Niger. The state lies between Latitudes 8°30'N and 8°50'N and Longitudes 4°20'E and 4°35'E of the Greenwich Meridian. It occupies a land area of approximately 100 km<sup>2</sup>, with a recorded population of 3.8 million people as of the 2020 Statistical Bulletin. Kwara covers 33,433 km<sup>2</sup>, with a population density of 106.2 people per km<sup>2</sup>. Following the 1976 state reorganization, parts of the Idah-Dekina area were merged with sections of Benue and Plateau States.



**Sampling. Technique**

A multi-stage sampling technique was employed to select respondents for the study. In the first stage, one zone was purposively picked out of the six (3) zones in Kwara-State because of their commitment to Cooperative Thrift and Credit Societies. In the second stage, two (2) Local Government Areas (LGAs) were systematically selected from Kwara-south and Ifelodun. In the third stage, six villages (Igbaja, Ilupeju, Olayinka, Temidire, Ajoko, Eleyele) were randomly selected from the chosen Local Government Areas. The villages were randomly selected. In the last stage, 40, 20, 10, 50 respondents were selected from each town based on number of the available members that participate in CTCS making a total of 120 respondents.

**Method of Data Collection and Data Analysis**

The study utilized primary data, which were gathered through the administration of structured questionnaires to obtain information from the respondents in the study areas. Additionally, oral interviews were conducted to gather further insights. The descriptive and inferential statistics were used to analyze the collected data. Descriptive statistics such as frequency table, percentages and means were used to describe socio-economic characteristics of the respondents and problems associated with loan default in Kwara Nigeria. Inferential Statistics such as regression was to evaluate the effect of employment instability on members loan turnover rate and effect of financial distress on interest receive from members. Four (4) likertscale was also employed in this section to analyze the interpretation of likert scale questions asked under each independent variables of Financial Distress on interest received from cooperative as Strongly Disagree(1), Disagree(2), Undecided(3), Agree(4) and Strongly Agree(5) by the Respondents in the North-Central States of Nigeria.

**Model Specification**

The model used to examine the hypotheses of the study is expressed in the form of a linear equation:

$$Y = f(X)$$

Where Y = Financial Performance (₦)

F = Functional Relationship

X = Loan Default (Independent variable)

The regression model of the relationship used is presented below:

$$Y = \beta_0 + \beta_1 EI + \beta_2 FD + \beta_3 HCU + \beta_4 D2I + \beta_5 LCV + \mu_0$$

$$\text{Financial Performance} = \beta_0 + \beta_1 EI + \beta_2 FD + \beta_3 HCU + \beta_4 D2I + \beta_5 LCV \mu \dots (1)$$

The simple linear form is stated below:

**Hypothesis Test of Employment Instability on Member Loan Turnover Rate**

H0<sub>1</sub>: Employment instability has no significant effect on the Members' Loan turnover rate in CTCS.

Therefore the formulae is as follows:

$$MLTR = \beta_0 + \beta_1 CASE + \beta_2 UNEM + \beta_3 CJIR + \beta_4 UDER + \epsilon \dots \dots \dots (1)$$

Where: MLTR = Loan Turnover Rate (dependent variable); CASE= Casual/Seasonal Employment; UNEM = Unemployment Rate; CJIR = Change of Job/ Irregular Income; UDER = Underemployment Rate;  $\beta_0$  is the intercept term.;  $\beta_1, \beta_2, \beta_3, \beta_4$  are the regression coefficients for the respective independent variables;  $\epsilon$  is the error term, representing the variability in the loan turnover rate not explained by the independent variables.

**Hypothesis Test of Financial Distress on Interest Received from Members**

H0<sub>2</sub>: Financial distress has no significant influence on the interest received from members of CTCS in the North-Central States, of Nigeria.

To determine the effect of financial distress on interest received from members

$$IR = \beta_0 + \beta_1 FELR + \beta_2 DTIR + \beta_3 OLR + \beta_4 LRR + \epsilon \dots \dots \dots (2)$$

Where: IR = Interest Received (dependent variable); FELR = Frequency of Emergency Loan Requests; DTIR = Debt-To-Income Ratio; OLR = Overdue Loan Repayment; LRR = Loan Repayment Ratio;  $\beta_0$  = Intercept term;  $\beta_1, \beta_2, \beta_3, \beta_4$  = Regression coefficients for the independent variables;  $\epsilon$  = Error term, representing the variability in interest received not explained by the independent variables.



## RESULTS AND DISCUSSIONS

### Socio-economic Characteristics of the Respondents

The age distribution of respondents reveals a notable concentration within the 24–28 years (36.6%) and 29–33 years (42.9%) age brackets, together accounting for 79.5% of the total. This demographic primarily includes individuals in the early stages of their careers or managing family responsibilities. These life stages are often marked by significant financial pressures, such as investments in housing, education, or business ventures. Given the prevailing economic challenges, including limited financial reserves and unstable income streams, the likelihood of loan defaults among individuals in age, the age groups may increase. This age-related vulnerability to default highlights the need for cooperatives to consider age-specific credit policies, potentially offering tailored repayment terms for younger members. The gender composition of the respondents, with 52.0% being female, underscores the significant role women play in cooperative societies. Many women utilize loans for entrepreneurial activities or household sustenance, thereby contributing to the socio-economic stability of their families and communities. The analysis of respondents' marital status revealed that 86.9% were married. Married individuals often experience dual financial pressures, balancing household expenses alongside loan repayments. On the other hand, divorced members may face reduced financial resources due to the loss of shared income. These dynamics are crucial, as financial instability within either group can increase the risk of default. Religion and education also play a significant role in shaping financial decision-making among cooperative members.

The predominance of Muslims (56.5%) and Christians (36.6%) among respondents highlights the importance of considering cultural and religious factors that influence attitudes toward borrowing and repayment. Although religion may not directly affect repayment behavior, it often shapes members' ethical perspectives on financial obligations, which can indirectly influence their approach to loan repayment. Educational attainment has been shown to have a direct impact on loan repayment. Table 1 the majority of respondents (52.1%) hold tertiary qualifications, which are typically associated with better employment prospects and an improved economic position, ultimately leading to more reliable loan repayment. However, 23.8% of respondents with only primary education may encounter limited economic opportunities, increasing their likelihood of default. The analysis of respondents' employment status reveals a diverse workforce among cooperative members, with government workers and self-employment representing the largest group at 74.8%. While government employment is typically associated with income stability, factors such as salary delays and inflation can still pose challenges to repayment, as noted by Adebayo *et al.*, (2024). Working Experience is a predominant factor that prompts people to join cooperative societies in the study areas. Statistically, the result from Table 4.1 indicates that 53.4% of members of respondents had 6 to 10 years working experiences, with this level of knowledge and experience Cooperative Societies should be more viable and more functioning. Position Held in Cooperative societies is a vital issue that people see as a driving factor to join cooperative societies at grass root level. In terms of cooperative position, the result from Table 1 stated that dignity (90.0%) of the respondents are presidents of the CTCS in the study area, ideally, most people love to be in position of power to make decision and take in charge of responsibility. Income level is a crucial determinant of loan repayment performance. As shown in Table 1, a significant portion of respondents face financial vulnerabilities, with 79.6% earning between ₦100,000 and ₦250,000 (equivalent to approximately \$59 to \$147 at the current exchange rate of ₦1,700 per US dollar). Additionally, 6.0% of respondents earn less than ₦260,000-350,000 indicating that few are low-income earners in the context of the current high inflation rate. Lower-income individuals are particularly vulnerable to default, as essential expenses often take priority over loan repayments. The analysis of respondents' household size reveals additional challenges, with 53.4% of respondents managing households with 5 to 8 members, and 31.4% supporting households with 9 or more members. Larger households place a greater financial burden on respondents, often leaving less disposable income available for loan repayments.



**Table 1:** Distribution of Socio-economic Characteristics of the Respondents (n=191)

Variable	Options	Frequency (f)	Percentage (%)	Average
Age (years)	18 – 23	8	4.2	31years
	24 – 28	70	36.6	
	29 – 33	82	42.9	
	34 – 38	20	10.5	
	39 above	11	5.8	
Gender	Male	91	47.6	31years
	Female	100	52.4	
Marital Status	Single	9	4.7	31years
	Married	166	87.0	
	Divorced	8	4.2	
	Widowers	6	3.1	
	Widows	2	1.0	
Religion	Christians	70	36.6	31years
	Muslims	108	56.6	
	Traditionalist	5	2.6	
	Atheists	8	4.2	
Education/Cert	PRY/CERT	99	51.9	31years
	SSCE/NECO CERT	70	36.6	
	ND/HND/B.SC	19	9.9	
	M.SC/MBA CERT	3	1.6	
Employment	Government Workers	70	36.6	31years
	Self-Employment	73	38.2	
	Artisans	28	14.7	
	Privates	20	10.5	
Working Experience	Less than 5 Years	10	5.2	31years
	6 – 10 Years	102	53.5	
	11 – 15 Years	44	23.0	
	16 – 20 Years	35	18.3	
Position Coop	Members	172	90.1	31years
	Presidents	6	3.1	
	Treasurers	7	3.7	
	Secretaries	6	3.1	
Household Income (₦)	Less than 100,000	76	39.7	₦287,540
	100,000–250,000	70	36.6	
	260,000– 350,000	15	7.9	
	351,000– 450,000	30	15.8	
Household Size	1 – 4	60	31.4	₦287,540
	5 – 8	100	52.4	
	9 – 13	14	7.3	
	14-17	16	8.4	
	Above 18	1	0.5	
<b>Total</b>		<b>191</b>	<b>100</b>	

**Source:** Field Survey, 2024.

### **Employment Instability on Members Loan Turn-Over Rate in CTCS**

The results in Table 2 provide significant insights into perceived effect of the employment instability on members’ loan turnover rate in the CTCS. Majority (47.6%) of respondents strongly agreed that economy and job dissatisfaction can increase member loan turnover rate. This suggests adherence that economy situation can lead high demand for loan and it also affect CTCS financial stability. Almost half (47.1%) of respondents strongly agreed that casual and seasonal employment negatively affect members to demand for loan. This implies that inconsistent income can lead to financial instability for members and contribute to high rate of demand for loan in CTCS which can

result to loan default. Substantial proportion (45.7%) of respondents strongly agreed that unemployment and market failure increase demand for loan from CTCS and it can lead result to loan default in the future. Also, persistence market failure and unemployment rate can result in loan default among members of CTCS which can causes unemployment and result to financial instability. **Moreover**, 45.0% of the respondents agreed that underemployment is a signal of members' loan demand and can increase loan default in the study area. This suggests that cooperatives members struggling with loan to improve the standard of living. Also, 40.8% of respondents agreed that illiteracy can increase members' loan demand. The result support Oluwakayode *et al.*, (2020). that business failure, business expansion, unforeseen contingencies, inadequate funds, family requests such as school fee, are the reasons why members demand for loan from cooperative societies.

**Table 2:** Distribution of Respondents by Employment Instability on Members Loan Turn-Over Rate in CTCS

S/N	Response	Strongly Disagreed	Disagreed	Undecided	Agree	Strongly Agreed	Percentage
1	Change of job and irregular income are key factors contributing to the high loan turnover rate among members of our cooperative societies.	21 (10.9%)	22 (11.5%)	16 (8.3%)	41 (21.4%)	91 (47.6%)	100%
2	Casual and Seasonal employment are significant factors driving the high loan turnover rate among members of cooperative societies.	12 (6.2%)	22 (11.5%)	11 (5.7%)	56 (29.9%)	90 (47.1%)	100%
3	Unemployment and business failure significantly contribute to the high loan turnover rate among members of our cooperative societies.	10 (5.2%)	17 (8.9%)	6 (3.1%)	71 (37.1%)	87 (45.7%)	100%
4	underemployment is a key factor in measuring the loan turnover rate among members of our cooperative societies.	15 (7.8%)	20 (10.4%)	12 (6.2%)	58 (30.3%)	86 (45.0%)	100%
5	An increase in Loan demand can be driven by illiteracy	12 (6.2%)	21 (10.9%)	11 (5.7%)	69 (36.1%)	78 (40.8%)	100%

**Source:** Field Survey, 2024

SD = Strongly Disagree, D = Disagree, SA = Strogly Agreed, A = Agreed, UN = Undecided

### **Interpretation Financial Distress on Interest Received from members**

Statistically, result in Table 3 provides significant insights into perceived effect of financial distress on interest received from members in the CTCS. Majority (60.9%) of respondents agreed that frequency of emergence loan, inflation and unstable economy can decrease interest receive from member. This suggests that frequency of emergency loan, inflation and unstable economy can reduce loan interest received from members of CTCS in the study areas. This implies that there will be financial instability in the cooperative and this affect the financial performance of the cooperative society. The

frequency of emergency loan requests shows that financially distressed members rely on emergency loans, increasing liquidity strain on the cooperative. While this may provide temporary relief for members, it may also lead to an accumulation of unpaid interest, reducing the cooperative's revenue. This finding concurs with Agada *et al.*, (2023) who claimed that loan accumulation by cooperative members reduces cooperative interest and increases financial distress of individuals cooperative members' on loan Majority (71.7%) of respondents agreed that debt to income negatively affect loan interest receive from cooperative members as a result of this there will be poor financial performance in cooperative pursue. This implies that inconsistent debt to income can lead to financial instability for the cooperative society. The significant negative impact of the debt-to-income suggests that as members experience financial distress, their ability to repay loans deteriorates, leading to reduced interest income for cooperatives. Equally, 65.1% of respondents agreed that loan repayment, Household expenses, increase in rent and electricity bill reduces interest received from cooperative society. This affect the financial stability of members which lead to poor interest received from members' development as this has significant impact, indicating that as repayment rates decline, the cooperative earns less interest from loans, directly affecting its financial sustainability.

**Table 3: Distribution of Respondents by Financial Distress on Interest received**

S/N	Status Response	Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree	Percentage
1	The Frequency Request for Emergency loan, Inflation, and an unstable economy are major factors contributing to the low interest income in cooperative societies.	20 (6.0%)	12 (3.6%)	18 (5.4%)	233 (60.9%)	99 (30.2%)	100%
2	The Debt to Income ratios can impact the amount of loan interest received from members in cooperative societies.	8 (2.0%)	19 (4.9%)	13 (3.4%)	274 (71.7%)	68 (17.8%)	100%
3	Rising Domestic Expenses, and increasing house rent leads to lower interest income from members of our cooperative societies.	16 (4.1%)	12 (3.1%)	10 (2.6%)	249 (65.1%)	95 (24.8%)	100%
4	Overdue Loan Repayment and Transportation Cost negatively impact the interest income from loans in our cooperative societies.	11 (2.8%)	19 (4.9%)	20 (5.2%)	250 (65.4%)	82 (21.4%)	100%
5	The Loan Repayment Ratio and Household consumption significantly impact the loan interest received in our cooperative societies	9(2.3%)	21 (2.8%)	03 (0.7%)	287 (72.7%)	62 (16.2)	100%

**Source:** Field Survey, 2024.

**Test of Hypothesis One:**

Ho, Present Value is < 0.05, reject Null Hypothesis

H<sub>1</sub>, Accept the Alternative Hypothesis

Table 4, presents the results of a regression analysis designed to assess the influence of various employment instability indicators on the Member Loan Turnover Rate (MLTR) in Cooperative Thrift and Credit Societies (CTCSs). The MLTR, serving as the dependent variable, measures how frequently members borrow and repay loans within a specified period. The independent variables considered include Casual or Seasonal Employment (CASE), Unemployment Rate (UNEM), Job



Change and Irregular Income (CJIR), and Underemployment Rate (UDER). The regression model demonstrates strong explanatory power, with an R-squared value of 0.778, indicating that approximately 77.8% of the variation in MLTR is explained by the employment-related variables. The adjusted R-squared value of 0.674 further confirms the model’s robustness after adjusting for the number of predictors. Additionally, the Durbin-Watson statistic of 1.734 suggests that the residuals exhibit minimal autocorrelation, while the F-statistic of 163.146 affirms the overall statistical significance of the model at conventional levels. All four employment instability indicators show statistically significant negative relationships with the loan turnover rate, underscoring the adverse effects of labor market instability on members’ participation in cooperative loan activities. Oladeebo and Oladeebo (2018) in Oyo state obtained similar results respectively. The coefficient for CASE is -677, indicating that a unit increase in casual or seasonal employment leads to a 677-unit decrease in MLTR. This result is statistically significant and suggests that members engaged in non-permanent employment face irregular income streams, which hinder their ability to commit to loan obligations. The income uncertainty associated with casual jobs makes members more risk-averse and less inclined to take loans, or more likely to default, leading to a lower overall turnover rate in cooperative lending. Unemployment also has a strong and statistically significant negative effect on the loan turnover rate, with a coefficient of -438. As the unemployment rate rises, a growing number of members lose access to stable income sources, reducing their eligibility for loans and ability to repay.

This financial vulnerability directly undermines their engagement in the cooperative’s credit system, resulting in reduced loan activity. Cooperatives operating in areas with high unemployment may thus face challenges in maintaining active loan portfolios. The CJIR variable, with a coefficient of -342, indicates that frequent job transitions and irregular income patterns significantly lower MLTR. These conditions create instability in cash flow, making it difficult for members to plan and adhere to regular loan repayment schedules. From the cooperative’s perspective, this increases the risk of default, often leading to stricter lending policies or reduced access to credit for affected members. This further suppresses loan activity within the society. Underemployment characterized by members working fewer hours than they desire or in roles below their qualifications also exerts a negative influence on loan turnover, with a coefficient of -408. Although technically employed, underemployed individuals often earn insufficient income to qualify for or sustain loan repayments. This partial engagement in the labor market limits their financial capacity, thereby lowering the frequency of loan borrowing and repayment cycles.

**Decision Rule:** There is statistically significant evidence to support the alternative hypothesis (H<sub>1</sub>). This means that loan default has a significant effect on the financial performance of Cooperative Thrift and Credit Societies.

**Table 4:** Effect of Employment Instability on Members Loan Turnover Rate in CTCS.

Model	Coeff. Beta	Std. Error	T-Value	Probabilities
Constant	-786	165.59	3.155***	0.000
Casual or Seasonal Employment (CASE)	-677	535.87	2.263**	0.030
Unemployment Rate (UNEM)	-438	59.85	3.218***	0.014
Change of Job & Irregular Income (CJIR)	-342	54.20	3.311***	0.010
Underemployment Rate (UDER)	-408	97.12	2.202**	0.028
R-square	0.778	The Durbin-Watson statistic of 1.734		
Adjusted R-square	0.674	The F-statistic of 163.146		

**Source:** field data survey, (2024), Significant level 1%, \*\*\* 5% \*\* 10% \* Dependent variable Members Loan turnover Rate (MLR); Independent variable Employment Instability (EI)

**Test of Hypothesis Two:**

H<sub>0</sub>, Present Value is < 0.05, reject Null Hypothesis

H<sub>1</sub>, Accept the Alternative Hypothesis

Table 4, presents a regression model designed to investigate the effect of financial distress (FD) on the interest income (IR) received from members by Cooperative Thrift and Credit Societies (CTCSs).



The dependent variable, interest received (IR), reflects the income cooperatives earn from loans extended to their members. The independent variables include key indicators of financial distress: Frequency of Emergency Loan Requests (FELR), Debt-to-Income Ratio (DTIR), Overdue Loan Repayment (OLR), and Loan Repayment Ratio (LRR). The model reveals a high explanatory power, with an R-squared value of 0.890, indicating that 89% of the variability in interest income is explained by the selected financial distress variables. The adjusted R-squared of 0.698 also reflects the robustness of the model after accounting for the number of predictors. The F-statistic of 173.126 confirms that the model is statistically significant overall. Moreover, the Durbin-Watson statistic of 1.634 suggests no serious autocorrelation, affirming the model’s reliability. The regression coefficient for FELR is **-760**, with a **t-value of 3.233** and a **p-value of 0.020**, showing a **statistically significant negative relationship** between the frequency of emergency loan requests and interest income. This implies that as the frequency of emergency loan requests increases often triggered by short-term financial crises among members interest income from loans significantly declines. Members seeking emergency loans are typically in distress and may struggle with repayment, which reduces timely interest collections. This finding aligns with **Tijani and Agbo (2024)**, who noted that emergency loans, though increasing loan volumes, often reduce income due to delayed or partial repayments and a rise in default risk. With a coefficient of **-.449**, the DTIR also demonstrates a **negative and statistically significant effect** on interest income (**t = 1.960; p = 0.022**).

This suggests that higher member debt burdens relative to their income reduce their capacity to service loans effectively, ultimately lowering interest earnings. High DTIR reflects financial overextension, which increases the likelihood of loan delinquency and default. The result supports the findings of **Bello and Essien (2024)**, who reported that members with high debt loads are more prone to repayment difficulties, thereby undermining cooperatives’ revenue generation from interest. The coefficient for OLR is **-451**, with **t-value of 3.111** and a **p-value of 0.025**, indicating a **strong negative impact** on interest income. Overdue loan repayment is a clear signal of repayment default or delay, which directly hinders the cooperative’s ability to generate timely interest revenue. This finding confirms the work of **Oluwaseun and Kalu (2024)** who observed that increasing overdue loans especially among financially distressed members negatively impacts interest income by delaying cash inflows and increasing financial risk exposure for CTCSS. The coefficient of **-507**, with a **t-value of 3.202** and **p-value of 0.016**, signifies a **statistically significant inverse relationship** between LRR and interest income. In this context, a higher LRR may indicate worsening repayment patterns (depending on the metric’s orientation), reflecting that as members struggle to repay, and the cooperative’s ability to earn interest declines. This aligns with **Chijoke and Akinwunmi (2024)**, who emphasized that as financial distress deepens, loan performance deteriorates, leading to reduced and inconsistent interest income for cooperatives. Delayed repayments reduce liquidity, threaten sustainability, and weaken the cooperative’s loan recycling capacity.

**Decision Rule:** There is statistically significant evidence to support the alternative hypothesis ( $H_1$ ). This means that loan default has a significant effect on the financial performance of Cooperative Thrift and Credit Societies

**Table 5:** Effect of Financial Distress on Interest received from Members in CTCSS.

Model	Coeff. Beta	Std. Error	T. Statistics	Probabilities
Constant	-.521	241.94	2.155**	0.001
Frequency of Emergency Loan Request (FELR)	-.760	235.15	3.233***	0.020
Debt to Income Ratio (DTIR)	-.449	229.08	1.960*	0.022
Overdue Loan Repayment (OLR)	-.451	144.94	3.111***	0.025
Loan Repayment Ratio (LRR)	-.507	158.02	3.202***	0.016
R-Square	0.890	<i>F-statistics</i>		173.126
Adjusted R <sup>2</sup>	0.698	<i>Durbin Watson</i>		1.634

**Source:** field data survey, (2024), Significant level 1%, \*\*\* 5% \*\* 10% \* Dependent variable Interest received (IR) Independent variables.; Financial Distress (FD).



## CONCLUSION AND RECOMENDATIONS

Demographic findings revealed that 52.0% of respondents were female, and 86.9% were married. The average age was 31 years, with an average of 13 years' experience in cooperative participation. More than half (51.8) of the respondents had formal education, with an average household size of six. Additionally, 52.8% of the respondents had been members for 6 to 10 years, and 90.0% held membership roles, indicating strong engagement and potential influence on cooperative operations. Regression results indicated that employment instability, particularly unemployment (coefficient = -.677,  $p = 0.030$ ) and irregular income (coefficient = -.342,  $p = 0.020$ ), significantly increased loan default risk. Financial distress, reflected in frequent emergency loan requests, negatively affected interest income. Financial distress indicators such as frequent emergency loan requests, high debt-to-income ratios, and overdue repayments significantly reduced the cooperatives' interest income, highlighting how members' financial vulnerability undermines revenue generation. Therefore, this study recommended cooperative societies should integrate employment status as a core factor in credit worthiness assessment, members with casual, seasonal, or unstable employment should be offered tailored loan products with flexible terms and risk-based pricing. More so Cooperative Societies should develop more robust pre-lending evaluation frameworks that incorporate variables such as employment types, job stability, and historical income patterns, and this will improve the accuracy of risk assessments and loan recovery forecasts.

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