

# **An investigation in the relationship between credit risk assessment and the level of non performing loans in commercial banks in Kenya**

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## ABSTRACT

The study aimed investigation the relationship between credit risk assessment and the level of non performing loans in commercial banks in Kenya. The study employed a census mode of study where all 44 commercial banks formed part of the study. Information was collected by use of a questionnaire which made use of both open and closed ended questions. The questionnaire used a five point likert scale which ranged from strongly agree to strongly disagree. The collected data was entered into a statistical package for social sciences for analysis. The analysis indicated that Kenyan banks had a policy governing their assessment of loans with their credit facilities mainly targeting low, middle and high income individuals; and corporate bodies. The banks reviewed the consumption pattern of the loan applicant to ascertain their ability to take on additional loans by assessing the borrowers' financial burden In addition, banks reviewed borrowers' personal character in risk assessment to establish the level of risk they would be taking on by accepting the applicants' application; Banks reviewed the borrower's track record by use of other information, information contained by the credit reference bureau during loan review to establish the applicants' past record in meeting their financial obligation. The five independent variables that were studied, explain 82.4% of the non-performance of loans ratio commercial banks in Kenya as represented by the R<sup>2</sup>. This therefore means that other factors not studied in this research contribute 17.6% of the non-performance of loans ratio commercial banks in Kenya. At 5% level of significance and 95% level of confidence, collateral had a 0.0033 level of significance, capacity had a 0.0458 level of significance, character showed a 0.0188 level of significant, capitalization showed a 0.0267 level of significant and condition showed a 0.0438 level of significance hence the most significant factor is collateral. The critical at 5% level of significance at k = 4 degrees of freedom is 2.245. Since all t calculated values were above 2.245 then all the variables were significant in explaining the non-performance of loans ratio among commercial banks in Kenya.