FACTORS AFFECTING LOAN REPAYMENT AMONG CUSTOMERS OF COMMERCIAL BANKS IN KENYA: A CASE OF BARCLAYS BANK OF KENYA, NAIROBI COUNTY.

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DECLARATION

This research project is my original work and has not been submitted for an award of a degree in any university.

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This research project has been submitted for an examination with my approval as university supervisor.

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DEDICATION

This research project report is dedicated to my mum, Mrs. Hannah Anyango Ochung and Mr. Calleb Ochola for their material, financial and moral support throughout the course of my studies at the University of Nairobi. I sincerely offer my thanks to all of them and May the good Lord bless them for their unwavering support and generosity.

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ABBREVIATIONS AND ACRONYMS

APT	Arbitrage Pricing Theory
BBK	Barclays Bank of Kenya limited
CAMP	Capital Asset Pricing Model
CBK	Central Bank of Kenya
GAAP	Generally Accepted Accounting Procedures
MFIs	Micro Finance Institutions
MPT	Modern Portfolio Theory
NGOs	Non Governmental Organizations
NPLs	Non Performing Loans
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences
VAR	Value at Risk

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ABSTRACT

The purpose of this study was to investigate factors affecting loan repayment among customers of commercial Banks in Kenya with specific reference to Barclays Bank of Kenya Limited. The study achieved its purpose through three objectives namely to determine the effect of Lenders factors on loan repayment among customers of commercial Banks in Kenya, to find out the extent to which Borrowers factors affect loan repayment among customers of commercial Banks in Kenya and finally to establish the effect of loan factors on loan repayment among customers of commercial Banks in Kenya. The study included staff of Barclays Bank of Kenya which includes Credit Administrators and Relationship Managers within the Branches of Nairobi County. It also included both mass market customers and the relationship managed customers. The target population included 78 respondents. The research design used was descriptive statistics. The study reviewed relevant literature with the aim of establishing a gap which the research fulfilled. Methods of collecting data were questionnaires and interview schedules. This study concludes that there is a significant relationship between firm/group factors and the loan repayment among customers of commercial banks in Kenya. The study also concludes that there is a significant relationship between individual borrowers' factors and the loan repayment among customers of commercial banks in Kenya. The study further concludes that there is a significant relationship between loan factors and the loan repayment among customers of commercial banks in Kenya. The study recommends that commercial banks need to have mandatory supervision borrowers on loan utilization and repayment. The study also recommends that banks should apply efficient and effective credit risk management that will ensure that loans are matched with ability to repay, no or minimal insider lending, loan defaults are projected accordingly and relevant measures taken to minimize the same. The study further recommends that commercial banks should pool together and establish a credit information bureau to which reference can be made before a loan is disbursement. The study recommends that commercial banks should also apply rigorous policies on loan advances so as loans are awarded to those with ability to repay and mitigate moral hazards such as insider lending and information asymmetry.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Credit risk evaluation and lending decisions made in the past by lending institutions put a lot of emphasis on security than other similar important considerations (Santomero, 1997). There are instances in the past when it was easier to get a loan from a financial institution as long as the borrower had security to be charged rather than the ability to service the loan. Cash flow projections, viability of the project, character of the borrower, previous loans completion and ability to repay were not considered as important. This way a number of lending institutions ended up with many loan defaults due to incomplete, poor and unprofessional credit risk assessment and valuation particularly using all the 5C's of credit appraisal model that is: capacity, credibility, capital, collateral and character. Effective loan portfolio management begins with oversight of the risk in individual loans Sundarajan (2007). Prudent risk selection is vital to maintaining favorable loan quality. Therefore, the historical emphasis on controlling the quality of individual loan approvals and managing the performance of loans continues to be essential.

It seems appropriate for any discussion of risk management procedures to begin with why these firms manage risk. According to standard economic theory, managers of value maximizing firms ought to maximize expected profit without regard to the variability around its expected value. However, there is now a growing literature on the reasons for active risk management including the work of Parrenas (2005), Sundarajan (2007), and Fallon (1996) to name but a few of the more notable contributions. A review of risk management reported by Strutt (2000) contributions to the area of credit assessment and at least four distinct rationales offered for active risk management. These include managerial self-interest, the non-linearity of the tax structure, the costs of financial distress and the existence of capital market imperfections. Any one of these justifies the firms' concern over return variability, as the above-cited authors demonstrate.

In view of growing complexity of banks' business and the dynamic operating environment, risk management has become very significant, especially in the financial sector. Risk at the apex level may be visualized as the probability of a banks' financial health being impaired due to one or more contingent factors. While the parameters indicating the banks' health may vary from net interest margin to market value of equity, the factor which can cause the important are also numerous. For instance, these could be default in repayment of loans by borrowers, change in value of assets or disruption of operation due to reason like technological failure. While the first two factors may be classified as credit risk and market risk, generally banks have all risks excluding the credit risk and market risk as operational risk.

1.2 Statement of the Problem

Controlling non-performance of loans is very critical for both the performance of an individual bank and the economy's financial environment. Kenya has experienced banking problems culminating in major bank failures (37 failed banks as at 1998) following the crisis of; 1986-1989, 1993/1994 and 1998 (Kithinji and Waweru, 2007; Ngugi, 2001). The crisis was mainly attributed to Non Performing loans (NPLs). Mugambi (2010) did an investigation into the factors leading to loan defaults of micro-enterprises financed by Cooperative Bank in Kangemi and Kawangware areas in Nairobi, Kenya and established that many Micro-enterprises were mainly constrained by irregular income, poor management and high competition from the well established businesses. Waruinge (2009) did a survey of factors contributing to non-performance of loans among commercial banks in Kenya and established that economic factors and poor credit management greatly contributed to high portfolio of nonperforming loans among commercial banks in Kenya. These studies concentrated on microfinance enterprises which have a different operational and marketing strategies from those employed by commercial banks. This study therefore sought to provide data relevant for the commercial banking sector in Kenya. This study therefore sought to fill this knowledge gap by providing information on the factors affecting loan repayment among commercial banks in Kenya.

1.3 Purpose of the Study

To determine the factors affecting loan repayment among customers of commercial banks in Kenya

1.4 Research Objectives

The study was guided by the following three research objectives:

i. To determine the effect of lenders' factors on loan repayment among customers of commercial banks in Kenya
ii. To find out the extent to which borrowers factors affect loan repayment among customers of commercial banks in Kenya
iii. To establish the effect of loan factors on loan repayment among customers of commercial banks in Kenya

1.5 Research Questions

i. How do lenders factors affect loan repayment among customers of commercial banks in Kenya?
ii. To what extent do borrowers' factors affect loan repayment among customers of commercial banks in Kenya?
iii. What is the effect of loan factors on loan repayment among customers of commercial banks in Kenya?

1.6 Significance of the study

The study was important to different stakeholders including:

Financial Institutions: Financial institutions would be enlightened on the importance of the factors leading to loan defaults of micro-enterprises financed by financial institutions. The institutions would also obtain information on problem of credit management in Kenya and the strategies that need to be put in place to solve these problems and the experience of similar organizations in other parts of the world in solving these problems. This would help them formulate policies that would help minimize the level of loan

defaults of micro-enterprises. As it is known in any developing nations, targeting credit to the poor is one of the several instruments of alleviating Poverty.

The Government and the Central Bank of Kenya (CBK): The government and CBK would find useful information that would help them in formulation of policies that will lead to a reduction in the factors leading to loan defaults of micro-enterprises financed by financial institutions. This is because as the financial sector grows, the government has to come up with policies that address the various challenges within the sector so as to facilitate faster growth with minimum drawbacks. The government would be able to have an indication of the level of loan defaults of micro-enterprises, and this would provide a guide in formulating policies that will help reduce the factors leading to loan defaults of micro-enterprises financed by financial institutions in Kenya.

Scholars and researchers: This area of funding the micro-enterprises is still suffering from lack of information. Research in the various components in this area would help to unearth hitherto unknown information that would go a long way in facilitating further understanding of the factors leading to loan defaults of micro-enterprises. It would also contribute to the existing body of knowledge and fill in the gap on the factors leading to loan defaults of micro-enterprises. It would also act as a source of reference materials to scholars.

1.6 Delimitations

The bank has strict confidentiality which demands that information is shared only with authority. To enable the researcher collect valid and reliable information, the researcher got an authorization letter from the university requesting the Bank to provide the required information. The study was limited to Barclays bank of Kenya Limited Nairobi Region. Both customers and staff were included in the study. The study specifically focused on Nairobi branches of Barclays Bank of Kenya Limited because they exhibited different characteristics.

1.7 Limitations of the study

Most of the respondents were business people. This meant that most of the time they were busy serving customers. Due to time factor and the customers to serve, some

respondents would procrastinate filling the questionnaire. Language is a great barrier to good communication .Some respondents were not conversant with English language used in the questionnaire. Time allocated for the study was not sufficient to allow a wider scope of coverage of the study and harsh climatic conditions hindered accessibility especially during the month of June and July which the real data collection was conducted.

1.8 Assumptions of the study

The study assumed that the respondents would participate fully in the study by giving accurate responses as the situation was and not the ideal scenario. It was also assumed that the respondents would be available to fill the questionnaires.

1.9 Definition of Significant terms

Microfinance is defined as the provision of financial services to low-income clients, including consumers and the self- employed, who traditionally lack access to banking and related services (Gonzalez-Vega, 2008). Microfinance is a provision of a broad range of financial services such as savings, credit, insurance and payment services to the poor or low-income group who are excluded from the normal banking sectors.

Homogeneous group –means group with same attribute.

Social capital -is about the value of social networks, bonding similar people and bridging between diverse people, with norms of reciprocity. Or 'the ability of people to work together for common purposes in groups and organizations'

Joint liability-This refers to a situation where each member of group is liable up to the full amount of the relevant obligation.

Matching problem-This refers to when credit terms and conditions are no longer appropriate to each group member's needs as credit is renewed.

Domino effect –this effect occurs when at least one member of a credit group default due to default of the other member.

Hard money – money that is exchangeable at a given rate for some commodity, such as gold

Microcredit- A relatively small loan given to impoverished people to help them become self employed.

Small and Micro Enterprise- Defined as an enterprise which employs fewer than 50 persons.

Loan default is an occurrence that arises as a result to honor the agreement to meet the repayment terms which detail when money should be paid back to the lender.

Interest rates can be defined as the premium received by the lender after a stated period of time.

1.10 Organization of the Study

The study was structured into chapters. Chapter One introduced the study by looking at the background of the study, statement of the problem, purpose of the study, research objectives, research questions, significance and limitations and assumptions made by the researcher in this study. Chapter Two tackled literature review by looking at relevant literature that is related to the subject in the study. The literature review covered the theoretical framework, empirical review and the conceptual framework. Chapter Three covered research methodologies used in the collection and analysis of data. The exact sections covered in chapter three are research design, target population, sample and sampling method, data collection, data analysis and ethical standards. Chapter Four covered data analysis, presentation and interpretations while Chapter Five covered summary of findings, discussions, conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter summarized the information from other researchers who have carried out their research in the same field of study.

2.2 Theoretical Orientation

The study is guided by three theories including theory of finance, portfolio theory and pricing theory. Like any other lending business, the lender is out to earn a return on the money advanced in the form of interest on top of the principal. This therefore means that they have to thoroughly evaluate the borrowers to make sure that they only extend credit to borrowers with ability and capacity to repay. These theories explain the reasoning and bases of credit extension and management of nonperforming loans among customers of commercial banks.

2.2.1 Theory of Finance

The theory of finance is concerned with how individuals and firms allocate resources through time. In particular, it seeks to explain how solutions to the problems faced in allocating resources through time are facilitated by the existence of capital markets (which provide a means for individual economic agents to exchange resources to be available at different points in time) and of firms (which, by their production-investment decisions, provide a means for individuals to transform (current resources physically into resources to be available in the future). Numerous economists have explained the role of finance in the market with the help of different finance theories. The concept of finance theory involves studying the various ways by which businesses and individuals raise money, as well as how money is allocated to projects while considering the risk factors associated with them.

The concept of finance also includes the study of money and other assets, managing and profiling project risks, control and management of assets, and the science of managing

money (Hull, John C, 2002). In simple terms, 'financing' also means provision and allocation of funds for a particular business module or project. The Arbitrage Pricing Theory, for example, addresses the general theory of asset pricing. Proper asset pricing is necessary for the proper pricing of shares. The Arbitrage Pricing Theory states that the return that is expected from a financial asset can be presented as a linear function of various theoretical market indices and macro-economic factors. Here it is assumed that the factors considered are sensitive to changes and that is represented by a factor-specific beta coefficient. The Prospect Theory, on the other hand, takes into consideration the alternatives that come with uncertain outcomes. The model is descriptive by nature and attempts to represent real-life choices but not optimal decisions.

2.2.2 Portfolio Theory

Since the 1980s, banks have successfully applied modern portfolio theory (MPT) to market risk. Many banks are now using value at risk (VAR) models to manage their interest rate and market risk exposures. However, even though credit risk remains the largest risk facing most banks, the practical of MPT to credit risk has lagged (Margrabe, 2007). Banks recognize how credit concentrations can adversely impact financial performance. As a result, a number of sophisticated institutions are actively pursuing quantitative approaches to credit risk measurement, while data problems remain an obstacle. This industry is also making significant progress toward developing tools that measure credit risk in a portfolio context. They are also using credit derivatives to transfer risk efficiently while preserving customer relationships. The combination of these two developments has precipitated vastly accelerated progress in managing credit risk in a portfolio context over the past several years.

Traditionally, banks have taken an asset-by-asset approach to credit risk management. While each bank’s method varies, this approach involves periodically evaluating the credit quality of loans and other credit exposures, applying a credit risk rating and aggregating the results of this analysis to identify a portfolio’s expected losses. The foundation of the asset-by-asset approach is a sound loan review and internal credit risk rating system. A loan review and credit risk rating system enable management to identify changes in individual credits or portfolio trends in a timely manner. Based on the results

of its problem; loan identification, loan review, and credit risk rating system management can make necessary modifications to portfolio strategies or increase the supervision of credits in a timely manner.

In the expert system, the credit decision is left in the hands of the branch lending officer. His expertise, judgment and weighting of certain factors are the most important determinants in the decision to grant loans. The loan officer can examine as many points as possible but must include the five "Cs"; character, credibility, capital, collateral and cycle (economic conditions). In addition to the 5 Cs, an expert may also take into consideration the interest rate.

Due to the time consuming nature and error- prone nature of the computerized expertise system, many systems use induction to infer the human expert's decision process. The artificial neural networks have been proposed as solutions to the problems of the expert system. This system simulates the human learning process. It learns the nature of the relationship between inputs and outputs by repeatedly sampling input/output information.

Credit Scoring Systemsis where a credit score is used to represent the creditworthiness of a person. A credit score is primarily based on credit report information. Lenders, such as banks use credit scores to evaluate the potential risk posed by giving loans to consumers and to mitigate losses due to bad debt. Using credit scores, financial institutions determine who are the most qualified for a loan, at what rate of interest, and to what credit limits. This lending technology uses a summary statistic about the borrowers expected future loan performance (Feldman 1997, and Mester, 1997). In fact credit scoring assumes that credit analysis ultimately determines that the personal credit history of small business owners is highly predictive of the loan repayment prospects of the business (Berger, Frame and Miller, 2002). Rutherford (1994, 1995) observes that although credit scores have been used for some time now in the U.S in underwriting consumers' loans, this lending approach has only been recently applied to small commercial credits which have been thought to have non-standardized documentation and to be too heterogeneous. The method for the use of credit scoring involves attaching heavy statistical weights to the financial conditions and history of the principal owner

given that the credit worthiness of the owner and that of the firm are closely related for most small businesses (Feldman 1997, Mester 1997)

2.2.3 Pricing Theory

This theory subscribes to the fact that an estimate of the benefits of diversification would require that practitioners calculate the covariance of returns between every pair of assets. In the Capital Asset Pricing Model (CAPM), William Sharpe (1961, 1964) and John Lintner (1965) solved this practical difficulty by demonstrating that one could achieve the same result by calculating the covariance of every asset with respect to a general market index. With the necessary calculating power reduced to computing these far fewer terms (betas), optimal portfolio selection became computationally feasible.

A more interesting alternative was the Arbitrage Pricing Theory (APT) of Ross (1976). Stephen Ross's APT approach moved away from the risk vs. return logic of the CAPM, and exploited the notion of pricing by arbitrage to its fullest possible extent. As Ross himself has noted, arbitrage-theoretic reasoning is not unique to his particular theory but is in fact the underlying logic and methodology of virtually all of finance theory. The following famous financial theorems illustrate Ross's point. The famous theory of option pricing by Fisher Black and Myron Scholes (1973) and Robert Merton (1973) relies heavily on the use of arbitrage reasoning. Intuitively, if the returns from an option can be replicated by a portfolio of other assets, then the value of the option must be equal to the value of that portfolio, or else there will be arbitrage opportunities. Arbitrage logic was also used by M. Harrison and David M. Kreps (1979) and Darrell J. Duffie and Chi-Fu Huang (1985) to value multi-period (i.e. long-lived) securities. All this spills over into the Neo-Walrasian theories of general equilibrium with asset markets (complete and incomplete) developed by Roy Radner (1967, 1968, 1972), Hart (1975) and many others since.

The famous Modigliani-Miller theorem on the irrelevance of corporate financial structure for the value of the firm also employs arbitrage logic. This famous theorem Franco Modigliani and Merton H. Miller (1963) can be thought of as an extension of the Separation Theorem originally developed by Irving Fisher (1930). Effectively, Fisher had argued that with full and efficient capital markets, the production decision of an

entrepreneur-owned firm ought to be independent of the inter-temporal consumption decision of the entrepreneur himself. This translates itself into saying that the profit-maximizing production plan of the firm will not be affected by the borrowing/lending decisions of its owners, that is, the production plan is independent of the financing decision. Modigliani-Miller extended this proposition via arbitrage logic. Viewing firms as assets, if the underlying production plans of differently-financed firms are the same, then the market value of the firms will be the same for, if not, there is an arbitrage opportunity there for the taking. Consequently, arbitrage enforces that the value of the firms to be identical, whatever the composition of the firm's financial structure.

2.3 Empirical Review

Empirical review refers to literature by other scholars on the topic relevant to the study under review. This study conducted the empirical review based on the research objectives. This ensured that all the literature relevant to the study is considered.

2.3.1 Firm/ Group's Factors

According to Oke et al. (2007), when evaluating a small business for a loan, lenders ideally like to see a two-year operating history, a stable management group, a desirable niche in the industry, a growth in market share, a strong cash flow, and an ability to obtain short-term financing from other sources as a supplement to the loan. Most lenders will require a small business owner to prepare a loan proposal or complete a loan application. The package of materials provided to a potential lender should include a comprehensive business plan, plus detailed company and personal financial statements. The lender will then evaluate the loan request by considering a variety of factors. For example, the lender will examine the small business's credit rating and look for evidence of its ability to repay the loan, in the form of past earnings or income projections (Copisarow, 2000). The lender will also inquire into the amount of equity in the business, as well as whether management has sufficient experience and competence to run the business effectively.

Some authors link the repayment performance with firm characteristics such as Nannyonga (2000), Arene (1992) and Oke et al. (2007) mention that firm's profit significantly influenced loan repayment. Besides that, Khandker et al., (1995) raise the question of whether default is random, influenced by erratic behavior, or systematically influenced by area characteristics that determine local productions conditions or branch-level efficiency. Their study on Grameen overdue loans supports the idea of partial influence of area characteristics. Rural electrification, road width, primary educational infrastructure and commercial bank density are positively correlated with a low default rate as well as predicted manager's pay. Paxton (1996) shows also that access to other credit sources, market selling activities and urban location were linked to a better repayment performance.

Along with group lending, MFIs usually use dynamic incentives and social intermediation. MFIs are said to use dynamic incentives when they increase the amount lent to a specific borrower as credit are renewed and condition the allocation of new loans to previous repayment behavior.. Microfinance is also sometimes referred to as social intermediation (Edgcomb & Barton, 1998) as many MFIs provide services or training that go beyond financial services. As opposed to group lending, these two main features of the microfinance methodology have been little documented up to now.

In the study of Diagne, Chimombo, Simtowe & Mataya (2000), the most important factor inciting lending groups to repay is the relative value they attach to access to future credit. For Sharma & Zeller (1997), credit rationing, up to a certain level, has a significant positive effect on repayment performances. In a study on the Grameen Bank, Khandker, Kalily & Khan (1994) found that the longer the branch operates in an area, the higher the loan default rate. They explain this feature by the possible decreasing marginal profitability of new projects. This could also be due to a deceasing power of dynamic incentives as credit is renewed over time especially if borrowers observe that credit is not systematically denied to defaulting or late borrowers.

Khan and Ahmed (2001) argued that some banks factors that related to risk management structures put in place by banks were to blame for loan defaults. These banks factors

include tax procedures used in credit risk assessment. Negligence in monitoring loan defaults, insider loans, lack of trained personnel and unaggressive credit collection methods. According to Chijoriga, (1997) awarding credit is a journey, the success of which depends on the methodology applied to evaluate and award the credit. This journey starts from the application for credit through acquisition of credit sales and ends at the time the debt is fully paid. Numerous approaches have been developed for incorporating risk into the decision making process by lending organisations. They range from relatively simple methods such as the use of subjective or informal approaches to the use of fairly complex methods like the computer simulation models (Lino, 1999). Many lending decisions by the financial institutions are based on the decision makers' subjective feelings about the risk in relation to the expected repayments of the borrower. Lending institutions commonly use this approach in decision making because it is both simple and inexpensive (Payner and Redman, 2002).

For institutions that do have active trading businesses, value-at-risk has become the standard approach. Similar systems are in place at other firms. In that much exists in the public record about these systems, there is little value to reviewing this technique here. Suffice it to say that the daily, weekly, or monthly volatility of the market value of fixed-rate assets are incorporated into a measure of total portfolio risk analysis along with equity's market risk, and that of foreign-denominated assets.

For balance sheet exposure to interest rate risk, commercial banking firms follow a different drummer. Given the generally accepted accounting procedures (GAAP) established for bank assets, as well as the close correspondence of asset and liability structures, commercial banks tend not to use market value reports, guidelines or limits. Rather, their approach relies on cash flow and book values, at the expense of market values (Basel, 2004)

Lack of supervision of projects arises when update of customer information and borrowers circumstances is not done frequently as a result the lending institution employees' inability to be close to their customers (Sundarajan, 2007). Moral hazard on the part of senior management, credit officers and borrowers arises when loans are not subjected to normal objective credit assessment before disbursement. This may include

extending credit to business they own or with which they are affiliated to, personal friends and relatives among others. On the part of borrowers this will arise when the borrowed funds are not put to the use for which they are borrowed but rather the funds are diverted to other personal use.

Repayment problem is one of the critical issues of MFIs that concerns all stakeholders (Godquin, 2004) where the high loan default rate is the primary cause of the failure of MFIs. The agency problem, adverse selection and moral hazard that appear as a result of information asymmetries are the main reason why these happened. This is because the lenders cannot observe the behaviors of their clients either they are honest and dishonest. The lenders can only observe the outcome of their loans either the clients repay or not. Therefore, to mitigate the repayments problems, a close relationship between lender and borrower can be applied through monitoring, business adviser and regular meeting. Besides that, the lender can introduce reward system to those that paid on time such as rebate or discount.

2.3.2 Individual/Borrower Factors

Several studies (Greenbaum et al., 1991; Hoque, 2000; Colye, 2000; Ozdemir & Boran, 2004) show that when a loan is not repaid, it may be a result of the borrowers' unwillingness and/or inability to repay. Stiglitz and Weiss (1981) recommend that the banks should screen the borrowers and select the "good" borrowers from the "bad" borrowers and monitor the borrowers to make sure that they use the loans for the intended purpose. This is important to make sure the borrowers can pay back their loans. Greenbaum and Thakor (1995), suggest to look at a borrower's past record and economic prospects to determine whether the borrower is likely to repay or not. Besides characters of the borrowers, collateral requirements, capacity or ability to repay and condition of the market should be considered before giving loans to the borrower.

Matin (1997), analyzing the determinants of the repayment performance of Grameen Bank borrowers, found that multiple NGO membership, which he associates to access to other sources of 'cheap' finance had a negative impact on the repayment performance. He also found that education and the area of the operated land, which can be proxies for

wealth of the borrower had a positive impact on the repayment performance. The membership period was positively associated with default while the loan size did not have a significant impact on the repayment performance.

Kimeu (2008) quoting Mishkin (1997) argues that the guiding principle in credit appraisal is to ensure that only those borrowers who require credit and are able to meet repayment obligations can access credit. According to Luce and Raiffa (1957), numerous approaches have been developed for incorporating risk into decision making processes by lending organizations. They range from simple methods such as the use of subjective or informal assessing techniques, to fairly complex ones such as the use of computerized simulation models.

Credit scoring systems utilize information relating to the traditional 5C's of credit. Unlike judgmental systems, empirical systems of analysis do consider age and credit worthiness is deemed to increase with age (Kegode, 2006). The objective of credit scoring is to predict from an applicant's characteristics whether a borrower is good (credit worthy) or bad (not creditworthy) risk. According to McMenamin (1999), the basic information needed to assess the creditworthiness of a customer is captured by the 5 C's of credit: character, capital, capacity, conditions and collateral.

2.3.3 Loan Factors

According to Derban et al. (2005), the causes of non-repayment could be grouped into three main areas: the inherent characteristics of borrowers and their businesses that make it unlikely that the loan would be repaid. Second, are the characteristics of lending institution and suitability of the loan product to the borrower, which make it unlikely that the loan would be repaid. Third, is systematic risk from the external factors such as the economic, political and business environment in which the borrower operates.

Vigenina & Kritikos (2004) find that individual lending has three elements namely the demand for non-conventional collateral, a screening procedure which combines new with traditional elements and dynamic incentives in combination with the termination threat in case of default, which ensure high repayment rates up to 100 percent.

Roslan Abdul Hakim et al. (2007) in their study conclude that close and informal relationship between MFIs and borrowers may help in monitoring and early detection of problems that may arise in non-repayment of loans. In addition, cooperation and coordination among various agencies that provide additional support to borrowers may help them succeed in their business. The study compared the good practices and performance of selected MFIs in Malaysia namely; Amanah Ikhtiar Malaysia, Koperasi Kredit Rakyat and Bank Pertanian Malaysia. However, Addisu (2006) categorized repayment problems into four factors: borrower related cause, business operation related cause, lender related cause, and extraneous causes.

2.4 Conceptual Framework

The conceptual framework is intended to develop awareness and understanding of the situation under scrutiny and communicate this effectively. According to Mugenda and Mugenda, (2003), conceptual framework involves forming ideas about relationships between variables in the study and showing these relationships diagrammatically. This study will adopt the conceptual framework shown in figure 2.1 on page 17.

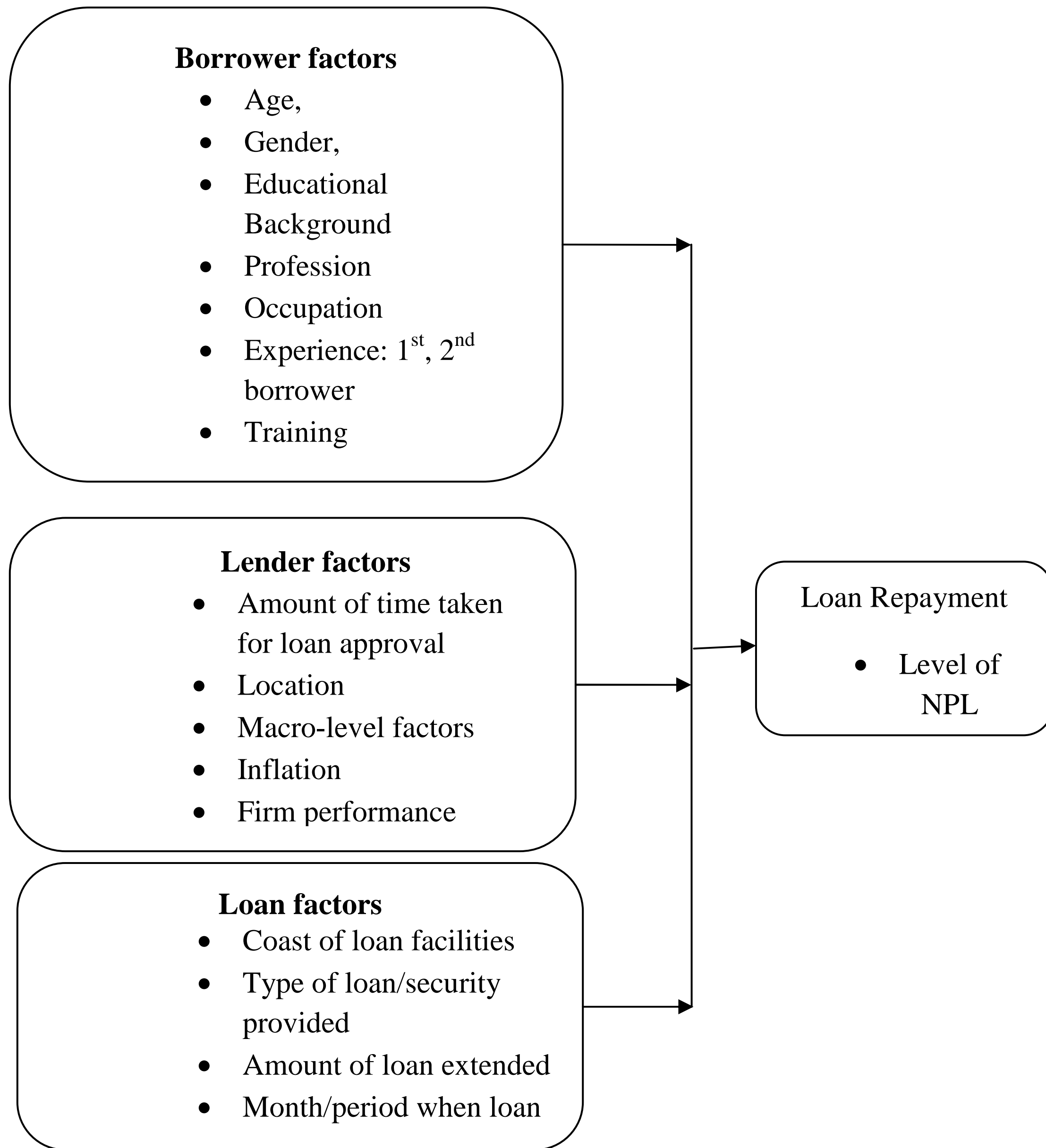

Figure 2. 1: Conceptual Framework

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

In this Chapter, the research identified the procedures and techniques that were used in the collection, processing and analysis of data. This chapter focused on the research design used, the target population of the study, the sampling design and the sample, the data collection instruments and the data analysis techniques used.

3.2 Research Design

The research design is a blueprint for conducting the research that specifies the procedures necessary to obtain the information needed to structure and solve the research problems (Cooper and Schindler, 2003). The research adopted descriptive research design in order to analyze the topic thoroughly. This method of research is preferred because a researcher is able to collect data, describe the state of affairs and answer questions concerning the subject of study. Descriptive research determines and reports the way things are and also helps a researcher to describe a phenomenon in terms of attitude, values and characteristics (Mugenda and Mugenda, 1999). According to Orodho (2003), descriptive survey is a method of collecting information by interviewing or administering a questionnaire to a sample of individuals. The researcher administered questionnaires to a sample of microcredit groups of customers (both external and internal) in commercial Bank BBK.

3.3 Target Population

A population is also known as a "universe" refers to all the items in the field of inquiry (Kumar, 2008). The population of the study consisted of management staff at Barclays Bank of Kenya Limited and customers. The study concentrated in Nairobi Branches of Barclays bank Kenya Limited. The study collected information from employees dealing directly with loan administration in the Bank because of their knowledge on the subject under study. Specifically, the study focused on credit department employees and customer relationship managers and their customers. From records at the Bank, there

were 78 employees in the credit department based in Nairobi and 26 account relationship managers.

Table 3. 1: Target Population

	Frequency	Percentage
Credit Administration Department	78	75
Account Relationship managers	26	25
Total	104	100

3.4 Sample and Sampling Method

Ngechu (2004) underscores the importance of selecting a representative sample through making a sampling frame. From the population frame the required number of subjects, respondents, elements or firms will be selected in order to make a sample. Stratified proportionate random sampling technique will be used to select the sample. According to Babbie (2010) stratified proportionate random sampling technique produce estimates of overall population parameters with greater precision and ensures a more representative sample is derived from a relatively homogeneous population. Stratification aims to reduce standard error by providing some control over variance. According to Mugenda and mugenda (2003) a sample of between 10-30% of the target population is considered adequate for generalization of the findings to the whole population. However, Mugenda and Mugenda (2003) added that the selected sample size should be comprised of at least 30 elements. The study selected 30% of the staff since they are not many and for customers, each account relationship manager was interview, two from their accounts and then for the mass market, the study randomly select 30 other customers. The selection was as follows.

Table 3. 2 Sampling Frame

	Frequency	Ratio	Sample
Credit Administration Officers	78	30%	24
Account Relationship managers	26	30%	8
Customers			46
Total	104		78

3.5 Data Collection

3.5.1 Type and Sources of Data

There exist two major types of data; primary data which is information gathered directly from the source for purposes of the study and secondary data which is information gathered from the published work of other authors (Wilson, 2010).

This research used both primary and secondary data as sources of information; primary data is obtained from the respondents – the population, while secondary data as stipulated is sourced from published works like records at the Bank. According to Mugenda and Mugenda (2003), secondary data is information collected from already published works such as books, articles, newspapers, and the internet. The secondary data is important because it acts as a support arm of the primary data; it provides background information on the research topic and it serves as a check and standard for evaluating primary data (Stevens et al, 2006). Secondary data used in this research were; records, magazine articles, journals, published books and the internet.

3.5.2 Data Collection Instrument

This paper utilized a questionnaire for primary data collection. The questionnaire designed in this study comprised of two sections. The structured questions were used in an effort to conserve time and money as well as to facilitate in easier analysis as they are in immediate usable form; while the unstructured questions were used so as to encourage the respondent to give an in-depth response without feeling held back in revealing of any information. A questionnaire is a schedule of various questions intended for self-completion by survey participants (Brace, 2008). It is a cost effective method to acquiring

information especially from a large or sparsely located group of respondents. It also allows for anonymity.

3.5.3 Piloting

Before the research tools were finally administered to participants, pre-testing was carried out to ensure that the questions were relevant, clearly understood and made sense. The pre-testing aimed at determining the reliability of the research tools including the wording, structure and sequence of the questions. This pre-testing involved 10 respondents from the target population. The respondents were conveniently selected since statistical conditions were not necessary in the pilot study (Cooper and Schindler, 2003). The purpose was to refine the research tools so that respondents in the major study were to have no problem in answering the questions. Expert opinion was requested to comment on the representativeness and suitability of questions and gave suggestions of corrections to be made to the structure of the research tools. This helped to improve the content validity and reliability of the data that was collected.

The researcher carried out a pilot study to pretest the validity and reliability of data to be collected using the questionnaire. According to Berg and Gall (1989) validity is the degree by which the sample of test items represents the content, the test is designed to measure. Content validity which was employed by this study as a measure of the degree to which data collected using a particular instrument represents a specific domain or content of a particular concept. Mugenda and Mugenda (1999) contend that the usual procedure in assessing the content validity of a measure is to use a professional or expert in a particular field. The researcher discussed the questions on the questionnaire with the supervisor who has more knowledge on the same.

The content validity of the research instrument was evaluated through the actual administration of the pilot group. The study used both face and content validity to ascertain the validity of the questionnaires. Face validity is actually validity at face value. As a check on face validity, test/survey items were sent to the pilot group to obtain suggestions for modification (Lacity and Jansen, 1994).

According to Shanghverzy (2003) reliability refers to the consistency of measurement. This consistency was ensured. Reliability is increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures.

The researcher selected a pilot group of 10 respondents from the target population which had similar demographics as those in credit department and customers under the customer relationship managers to test the reliability of the research instrument. The aim was to correct inconsistencies arising from the instruments, which ensured that they measure what is intended.

3.5.4 Reliability Analysis

A pilot study was carried out to determine reliability of the questionnaires. The pilot study involved the sampled Barclays management staff. Reliability analysis was subsequently done using Cronbach's Alpha which measures the internal consistency by establishing if certain item within a scale measures the same construct.

Table 3. 3: Reliability Analysis

Scale	Cronbach's Alpha	Number of Items
Firm/Group Factors	0.723	4
Individual Borrowers Factors	0.701	4
Loan Factors	0.856	4
Average (All Scales)	**0.760**	**4**

Klien (1999) notes that the accepted alpha value is 0.7, thus forming the study's benchmark. Cronbach Alpha was established for every objective which formed a scale. The table shows that loan factors had the highest reliability (α= 0. 856), followed by Firm/Group Factors (α=0. 723) and Individual Borrowers Factors (α=0. 701). This illustrates that all the three variables were reliable as their reliability values exceeded the prescribed threshold of 0.7.

3.5.5 Data Collection Procedure

This study collected quantitative data using a self-administered questionnaire and secondary data from records at the Bank. The researcher informed the respondents that the instruments being administered were for research purpose only and the responses from the respondents would be kept secret and confidential. The researcher obtained an introductory letter from the University to collect data from the organization then personally delivered the questionnaires to the respondents and had them filled in and then collected later: the drop and pick later method.

3.6 Data Analysis

Data analysis was engaged in after all data had been collected and cleaned. It was a process used to make sense of the data. The type of data analysis tool that was used was dependent on the type of data that was; was the data qualitative or quantitative (Walsh & Wigens, 2003). To analyze quantitative data frequency tables and statistical software packages were used (Wilson, 2010). The quantitative data in this research was analyzed by descriptive statistics using statistical package for social sciences SPSS (V. 17.0). The Statistical Package for Social Sciences (SPSS V. 17.0) was used in the analysis of the data collected in this research as the researcher deems it the most appropriate given its versatility and considering the nature of the data collected. The SPSS has the incredible capabilities and flexibilities of analyzing huge data within seconds and generating unlimited simple and sophisticated statistical results including simple frequency distribution tables, polygons, graphs, pie charts, percentages, cumulative frequencies, binomial mean, median standard deviation and other distributions. The qualitative data took an exploratory/conceptual content analysis process, this was more ideal as the information gathered from the open ended questions which was large and could be time consuming if not well planned (Wilson, 2010). The data was then presented using frequency tables and figures. In addition the study used Karl Pearson's product moment correlation analysis to assess the relationship between the variables. This was because correlation analysis illustrates both the direction and strength of the relationship between two variables (Walsh and Wigens, 2003).

In addition to the above analysis, the study conducted a multiple regression analysis to establish the effect of all the three factors on the level of loan repayment among customers of commercial banks. The following regression model was applied:

$$Y= \beta_0+ \beta_1X_1+\beta_2X_2+\beta_3x_3 +€$$

Where: Y= loan repayment as measured by the level of nonperforming loans

X1= borrower factors

X2= firm factors

X3 = loan factors

€ = error term

β0= constant

3.7 Ethical Considerations

The researcher sought permission from the relevant financing organizations before commencing the study. This was meant to assure them that it was purely academic and to be treated confidentially. The respondents were assured that the study is meant for academic purpose only, and that their responses were to be treated with utmost confidentiality. Also, due to sensitivity of some information collected, the researcher held a moral obligation to treat the information with utmost propriety.

3.8 Operationalization of variables

According to Smyth (2004), operationalization is inventing or contravening an idea or explanation. Operation model or design identifies each of the series of the logical steps, variables, and assumed interactions- bridging the gap from the beginning to the end of the total process by which the research is dependent upon. In this study the dependent variable was loan repayment whereas the independent variables were Lenders factors, Loan factors and Borrowers factors.

Table 3. 4: Operationalization of Variable

Objectives	Variables		Indicators	Measurement / Level of scale	Type of Analysis
	Independent	**dependent**			
To determine the effect of lenders' factors on loan repayment among customers of commercial banks in Kenya	Lender factors	Loan Repayment	Amount of time taken for loan approval Location Macro-level factors Inflation Firm performance	Nominal	Descriptive
To find out the extent to which borrowers factors affect loan repayment among customers of commercial banks in Kenya	Borrower factors	Loan Repayment	Age, Gender, Educational Background Profession Occupation Experience: 1st, 2nd borrower Training	Nominal	Descriptive
To establish the effect of loan factors on loan repayment among customers of commercial banks in Kenya	Loan factors	Loan Repayment	Coast of loan facilities Type of loan/security provided Amount of loan extended Month/period when loan	Ordinal	Descriptive

The above table showed the objectives, both independent and dependent variables and how they are connected in the study. Also indicators are clearly shown, the level of measurement and the type of data analysis that was used and that is descriptive statistics.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter presents the findings of the study, analysis of data and presentations of major findings. For the purpose of demonstrating the relationship among the various variables, the data was presented in the form of tables, frequencies and percentages where applicable.

4.1.1 Response Rate

The study targeted a sample size of 78 respondents from which 74(43 customers and 31 management staff) filled in and returned the questionnaires making a response rate of 94.9%. This response rate was excellent and representative and conforms to Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent.

4.2 Demographic Information

This section gives the gender of the staff, position held by the staff and duration of service of the staff as well as the duration of banking with Barclays bank by the customers and the types of accounts held by the customers.

Demographic Information for Staff

This section presents demographic information of the staff including gender, position held in the Bank and duration of service.

4.2.1 Gender of the respondents

The study sought to establish the gender of the management staff at Barclays Bank of Kenya. The findings were as shown in the table 4.2 below:

Table 4.1: Gender of the respondents

	Frequency	Percentage
Male	25	80.6
Female	6	19.4
Total	**31**	**100**

The findings revealed that 80.6% of respondents were male while 19.4% were females. This implies that there are more male than females. It is evident that out of the number of staff respondents there were more males than females as shown by the percentages in the above table.

4.2.2 Position Held

It was important to establish the position held by the respondents. The findings were as shown in the table 4.3 below:

Table 4.2: Position Held

	Frequency	Percent
Credit Administration Manager	22	71.0
Account Relationship managers	9	29.0
Total	**31**	**100.0**

From the findings, 71.0% of the respondents indicated that they were credit administration managers while 29.0% of the respondents indicated that they were account relationship managers. The number of relationship managers are less as compared to credit administrators at Barclays bank and this is due to the fact that Relationship managers are in charge of a wide portfolio of customers whereas credit administrators are many so as to speed loan assessment and approvals and to help improve turnaround time to meet the customers' expectations at the Bank and by their large number it helps to improve customer service.

4.2.3 Duration of Service

Data on the duration of service was as presented in the table 4.4 below:

Table 4.3: Duration of Service

	Frequency	Percent
Below 5 years	2	6.4
6-10 years	10	32.3
11-15 years	15	48.3
Above 16 Years	4	13.0
Total	**31**	**100.0**

With regard to the respondents duration of service, 48.3% of the respondents indicated that they had worked with Barclays Bank of Kenya for between 11-15 years ,32.3% of the respondents indicated that they had worked with Barclays Bank of Kenya for between 6-10 years ,13.0 % of the respondents indicated that they had worked with Barclays Bank of Kenya for above 16 Years while 6.4% of the respondents indicated that they had worked with Barclays Bank of Kenya for below 5 years.This implies that the respondents had a good understanding and vast experience on the subject being researched on.

Demographic Information for Customers

This section presents demographic information demographic information on the type of account held and the period banked with Barclays Bank of Kenya

4.2.4 Duration Of banking with Barclays Bank of Kenya

Data on the duration of banking with Barclays Bank of Kenya was as shown in the table 4.5 below:

Table 4.4: Duration Of banking with Barclays Bank of Kenya

	Frequency	Percent
Below 5 years	6	14
6-10 years	32	74
11-15 years	3	7
Above 16 Years	2	5
Total	**43**	**100.0**

With regard to the respondents duration of banking with Barclays Bank of Kenya.74% of the respondents indicated that they had banked with Barclays Bank of Kenya for between 6-10 years, 14% of the respondents indicated that they had banked with Barclays Bank of Kenya for below 5 years,7% of the respondents indicated that they had banked with Barclays Bank of Kenya for between 11-15 years while 5% of the respondents indicated that they had banked with Barclays Bank of Kenya for above 16 years.

4.2.5 Types of Accounts Held at BBK

Data Findings on the types of account held at BBK was as shown in the table 4.6 below:

Table 4. 5:Types of Accounts Held at BBK

	Frequency	Percent
Current Accounts	15	35
Savings Accounts	20	47
Both current and savings	6	13
Fixed Deposit Account	2	5
Total	**43**	**100.0**

In determining the types of accounts help.47% of the respondents indicated that they held savings accounts, 35% of the respondents indicated that they held current accounts,13% of the respondents indicated that they held both current and savings accounts while 5% of the respondents indicated that they held fixed deposit accounts.

4.3 Firm/Group Factors

This section presents data findings on the amount of time taken for a loan to be approved, firm features, several statements on bank factors and extent that the Bank factors affect loan repayment.

4.3.1 Amount of Time Taken For the Loan to Be Approved

The researcher sought to find out whether the amount of time taken for the loan to be approved affected loan repayment possibility. The findings are shown in the table 4.7 below:

Table 4.6: Amount of Time taken for the Loan to be Approved

	Frequency	Percent
Yes	72	97.3
No	2	2.7
Total	**74**	**100.0**

From the findings, 97.3% of the respondents indicated that the amount of time taken for the loan to be approved affected loan repayment possibility while 2.7% of the respondents indicated that the amount of time taken for the loan to be approved didn't affect loan repayment possibility. It is clearly evident from the respondents that amount of time taken for loan approval affected loan repayment at Barclays bank since only negligible number of 2.7 percent did not think of otherwise whereas the rest of the respondents were in agreement that indeed time taken for loan approval affected loan repayment at Barclays bank.

4.3.2 Firm Features

With regard to the firm features that affected the possibility of loan repayment among commercial banks. The respondents indicated that Location of business operations, amount of loan taken, the interest rates charged, firm performance, inflation levels in the economy and investment opportunities affected the possibility of loan repayment among commercial banks.

4.3.3 Statements on Bank Factors

The study sought to establish the level of agreement to which bank characteristics affected the loan repayment of customers. The findings were as shown in the Table 4.8 below:

Table 4.7: Statements on Bank Factors

	Mean	Std. Deviation
The information requested by the Bank from the loan applicant is readily available	3.6923	0.0543
The information requested by the Bank accurately predicts the repayment ability of the loan applicant	3.6889	1.0507
The performance of the Bank in form of performing loans affects the amount of loans to customers	3.8754	0.1043
The amount of information provided by the applicant affects loan repayment	4.0370	0.1060
The speed of loan approvals in the bank affects customers loan repayment	4.0741	0.2081
The amount of loan advanced	4.5642	0.6756
The loan repayment period	4.7634	0.6234

According to the findings, the respondents strongly agreed that the amount of loan advanced and the loan repayment period affected the loan repayment of customers as shown by a mean score of 4.7634 and 4.5642 respectively. The respondents agreed that the speed of loan approvals in the bank, the amount of information provided by the applicant, the performance of the Bank in form of performing loans , The information requested by the Bank and the availability of the information requested the loan applicant affected the loan repayment of customers as shown by a mean score of 4.0741 , 4.0370, 3.8754, 3.6889 and 3.6923 respectively.

4.3.4 Extent Does the Bank Factors Affect Loan Repayment

In determining the extent to which Bank factors affected loan repayment at Barclays Bank of Kenya Limited, the findings were as shown in the table 4.9 below:

Table 4.8: Extent that the Bank Factors Affected Loan Repayment

	Frequency	Percent
Very Great Extent	67	90.5
Great Extent	4	5.4
Moderately Extent	2	2.7
Less Extent	1	1.4
Total	**74**	**100.0**

From the findings, 90.5% of the respondents reported that Bank factors affected loan repayment at Barclays Bank of Kenya Limited to a very great extent,5.4% of the respondents said that Bank factors affected loan repayment at Barclays Bank of Kenya Limited to a great extent, 2.7% of the respondents said that Bank factors affected loan repayment at Barclays Bank of Kenya Limited to a moderate extent while 1.4% of the respondents reported that Bank factors affected loan repayment at Barclays Bank of Kenya Limited to a less extent.

4.4 Individual Borrowers' Factors

This section presents data findings on the effects of the age of the borrower, individual borrower factors, and the extent to which borrower factors affect loan repayment at Barclays Bank of Kenya Limited.

4.4.1 Age of the Borrower

On whether the age the borrower affected the possibility of loan repayment. The findings were as shown in the table 4.10 below:

Table 4.9: Age of the Borrower

	Frequency	Percent
Yes	67	90.5
No	7	9.5
Total	**74**	**100.0**

The findings revealed that 90.5% of the respondents reported that the age the borrower affected the possibility of loan repayment while 9.5% of the respondents said that the age the borrower didn't affect the possibility of loan repayment.

4.4.2 Individual Borrowers Factors

With regard to the major individual borrowers factors affecting loan repayment behavior and ability. The respondents indicated that: age, gender, profession of the borrower, education Background, income level, nature of business operated, borrower's experience ($1^{st}/2^{nd}$ etc borrower) ,location of business operations and amount of loan taken affected loan repayment behavior and ability.

4.4.3 Statements on the Borrowers' Factors

The study further sought to establish the respondents' levels of agreement on various statements regarding borrower factors. These are presented in the table 4.11 below:

Table 4.10: Statements on the Borrowers' Factors

	Mean	Std. Deviation
The kind of collateral pledged as security for the loan	4.5983	0.1593
The number of years the customer has banked with Barclays Bank of Kenya	4.6789	1.7565
The type of account a customer maintains with BBK	3.8754	0.2344

According to the findings, the respondents strongly agreed that the number of years the customer has banked with Barclays Bank of Kenya and the kind of collateral pledged as security for the loan affected the rate of loan repayment as shown by a mean score of

4.6789 and 4.5983 respectively. The respondents agreed that the type of account a customer maintains with Barclays Bank of Kenya affected the rate of loan repayment as shown by a mean score of 3.8754.

4.4.4 Extent that the Borrowers' Factors Affected the Level of Loan Repayment

Data findings with regard to the extent to which the borrowers' factors affected the level of loan repayment at Barclays Bank of Kenya was as presented in the table 4.12 below:

Table 4. 11: Extent that Borrowers' Factors Affected the Level of Loan Repayment

	Frequency	Percent
Very Great Extent	70	94.6
Great Extent	2	2.6
Moderately Extent	1	1.4
Less Extent	1	1.4
Total	**74**	**100.0**

From the findings, 94.6% of the respondents reported that which the borrowers' factors affected the level of loan repayment at Barclays Bank of Kenya to a very large extent,2.6% of the respondents reported that which the borrowers' factors affected the level of loan repayment at Barclays Bank of Kenya to a large extent while 1.4% of the respondents reported that which the borrowers' factors affected the level of loan repayment at Barclays Bank of Kenya to a moderate and less extent respectively.

4.5 Loan Factors

This section presents data findings on the loan factors and their effects on loan repayment at Barclays Bank of Kenya Limited.

4.5.1 Loan Factors

With regard to the loan factors affecting the level of loan repayment at Barclays Bank of Kenya. The respondents indicated that Interest rates charged on the loan, Proportion of negotiation fees, maturity period of the loan, grace period before repayment starts, type of

loan (Fixed/ variable interest) and amount of credit advanced affected the level of loan repayment at Barclays Bank of Kenya.

4.5.2 Loan Factors Have an Effect on Loan Repayment

The findings on the extent to which loan factors had an effect on loan repayment at Barclays Bank of Kenya is shown in the table 4.13 below:

Table 4. 12: Loan Factors Have An Effect On Loan Repayment

	Frequency	**Percent**
Very Great Extent	73	98.6
Great Extent	1	1.6
Total	**74**	**100.0**

The study revealed that 98.6% of the respondents reported that loan factors had an effect on loan repayment among customers of commercial banks in Kenya to a very great extent while 1.6% of the respondents reported that loan factors had an effect on loan repayment among customers of commercial banks in Kenya to a great extent.

4.6 Regression analysis

In this study, a multiple regression analysis was conducted to test the influence among predictor variables. The research used statistical package for social sciences (SPSS V 17.0) to code, enter and compute the measurements of the multiple regressions

Table 4. 13: **Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.763	.746	.578	.1076

a. Predictors: (Constant), Firm/Group Factors, Individual Borrowers Factors and Loan Factors

R-Square (coefficient of determination) is a commonly used statistic to evaluate model fit. R-square is 1 minus the ratio of residual variability. The adjusted $R^{2,}$ also called the

coefficient of multiple determinations, is the percent of the variance in the dependent explained uniquely or jointly by the independent variables. 74.6% of the changes in loan repayment could be attributed to the combined effect of the predictor variables.

Table 4. 14: ANOVA (Analysis of Variance)

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	821.593	4	205.398	44.27	.000[a]
	Residual	324.723	70	4.6389		
	Total	1146.316	74			

a. Predictors: (Constant), Firm/Group Factors, Individual Borrowers Factors and Loan Factors

b. Dependent Variable: Loan Repayment

The ANOVA table shows that the residual sum of squares (the sum of squared deviations from the least squares line) is 324.723, while the total sum of squares (the sum of squared deviations from the mean) is 1146.316. The probability value of 0.001 indicates that the regression relationship was highly significant in predicting how Firm/Group Factors, Individual Borrowers Factors and Loan Factors influenced Loan Repayment. The F critical at 5% level of significance was 3.671 since F calculated is greater than the F critical (value = 44.27), this shows that the overall model was significant.

Table 4. 15: Estimated Coefficients

Model	Unstandardized coefficients(B)	p-Value
Const.	1.879	3.25e-09 ***
Firm/Group Factors	0.708	0.0154 ***
Individual Borrowers Factors	0.642	0.0395 ***
Loan Factors	0.710	0.0133 ***

*** Significant at 10%

The "coefficients" table provides the regression equations. Under "unstandardized coefficients," the "Constant" (1.879) is the "a" coefficient. The remaining values in this column are the "b" coefficients. Rewriting this in standard algebraic form, the unstandardized regression equation is:

LR= 1.879 + 0.708 F/GF+ 0.642IBF+ 0.710LF+ e

Where LR is Loan Repayment, F/GF is Firm/Group Factors, IBF is Individual Borrowers Factors and LF is Loan Factors.

A unit change in Firm/Group Factors will lead to a 0.708 change in loan repayment. A unit change in Individual Borrowers Factors will lead to a 0.642 change in the loan repayment. While a unit change in the Loan Factors will lead to a 0. 710 change in loan repayment.

Table 4.19 shows that Firm/Group Factors, Individual Borrowers Factors and Loan Factors at 1% ,5% and 10% level of significance, they are significant in explaining the variations in loan repayment.

CHAPTER FIVE

SUMMARY OF FINDINGS, DISCUSIONS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presented the discussion of key data findings, discussion of the findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn were focused on addressing the purpose of this study which was to determine the factors affecting loan repayment among customers of commercial banks in Kenya Case of Barclays Bank of Kenya The study sought to establish the effect of lenders' factors on loan repayment among customers of commercial banks in Kenya, find out the extent to which borrowers factors affect loan repayment among customers of commercial banks in Kenya and establish the effect of loan factors on loan repayment among customers of commercial banks in Kenya .

5.2 Summary of Findings

This section presents a summary of the findings as per the research objectives and the data presented in chapter four. The summary is arranged according to research objectives and questions.

5.2.1 Firm/Group Factors

This study found that there is a significant relationship between firm/group factors and the loan repayment among customers of commercial banks in Kenya. The study revealed that the amount of time taken for the loan to be approved affected loan repayment possibility. The study also revealed that Location of business operations, amount of loan taken, the interest rates charged, firm performance, inflation levels in the economy and investment opportunities affected the possibility of loan repayment among commercial banks. The study found out that the amount of loan advanced and the loan repayment period, the speed of loan approvals in the bank, the amount of information provided by the applicant, the performance of the Bank in form of performing loans, the information

requested by the Bank and the availability of the information requested from the loan applicant affected the loan repayment of customers. The study also found out that Bank factors affected loan repayment at Barclays Bank of Kenya Limited to a very great extent.

5.2.2 Individual Borrowers' Factors

The study established that there is a significant relationship between individual borrowers' factors and the loan repayment among customers of commercial banks in Kenya. The study also established that the age the borrower affected the possibility of loan repayment. The study further revealed that the number of years the customer has banked with Barclays Bank of Kenya, the kind of collateral pledged as security for the loan and the type of account a customer maintains affected the rate of loan repayment. The study also revealed that borrowers' factors affected the level of loan repayment among customers at Barclays Bank of Kenya to a very large extent.

5.2.3 Loan Factors

The study revealed that there is a significant relationship between loan factors and the loan repayment among customers of commercial banks in Kenya. The study established that Interest rates charged on the loan, Proportion of negotiation fees, maturity period of the loan, grace period before repayment starts, type of loan (Fixed/ variable interest) and amount of credit advanced affected the level of loan repayment at Barclays Bank of Kenya. The study further established that loan factors had an effect on loan repayment among customers of commercial banks in Kenya to a very great extent.

5.3 Discussions of key findings

This section focuses on a detailed discussion of the major findings of the study which also entails comparing the study findings to the literature.

5.3.1 Firm/Group Factors

The study revealed that the amount of time taken for the loan to be approved affected loan repayment possibility. According to Oke et al. (2007), when evaluating a small

business for a loan, lenders ideally like to see a two-year operating history, a stable management group, a desirable niche in the industry, a growth in market share, a strong cash flow, and an ability to obtain short-term financing from other sources as a supplement to the loan. Most lenders will require a small business owner to prepare a loan proposal or complete a loan application. The package of materials provided to a potential lender should include a comprehensive business plan, plus detailed company and personal financial statements. The study found that the amount of loan advanced and the loan repayment period, the speed of loan approvals in the bank, the amount of information provided by the applicant, the performance of the Bank in form of performing loans, the information requested by the Bank and the availability of the information requested the loan applicant affected the loan repayment of customers. According to Chijoriga, (1997) awarding credit is a journey, the success of which depends on the methodology applied to evaluate and award the credit. This journey starts from the application for credit through acquisition of credit sales and ends at the time the loan is fully paid.

5.3.2 Individual Borrowers' Factors

The study also established that the age the borrower affected the possibility of loan repayment. Stiglitz and Weiss (1981) recommend that the banks should screen the borrowers and select the "good" borrowers from the "bad" borrowers and monitor the borrowers to make sure that they use the loans for the intended purpose. This is important to make sure the borrowers can pay back their loans. The study established that Interest rates charged on the loan, Proportion of negotiation fees, maturity period of the loan, grace period before repayment starts, type of loan (Fixed/ variable interest) and amount of credit advanced affected the level of loan repayment at Barclays Bank of Kenya. Credit scoring systems utilize information relating to the traditional 5C's of credit. Unlike judgmental systems, empirical systems of analysis do consider age and credit worthiness is deemed to increase with age (Kegode, 2006). The objective of credit scoring is to predict from an applicant's characteristics whether a borrower is good (credit worthy) or bad (not creditworthy) risk.

5.3.3 Loan Factors

The study established that Interest rates charged on the loan, Proportion of negotiation fees, maturity period of the loan, grace period before repayment starts, type of loan (Fixed/ variable interest) and amount of credit advanced affected the level of loan repayment at Barclays Bank of Kenya. According to Derban et al. (2005), the causes of non-repayment could be grouped into three main areas: the inherent characteristics of borrowers and their businesses that make it unlikely that the loan would be repaid. Second, are the characteristics of lending institution and suitability of the loan product to the borrower, which make it unlikely that the loan would be repaid. Third, is systematic risk from the external factors such as the economic, political and business environment in which the borrower operates. The study further established that loan characteristics had an effect on loan repayment among customers of commercial banks in Kenya to a very great extent. Vigenina & Kritikos (2004) find that individual lending has three elements namely the demand for non-conventional collateral, a screening procedure which combines new with traditional elements and dynamic incentives in combination with the termination threat in case of default, which ensure high repayment rates up to 100 percent.

5.4 Conclusions

This study concludes that there is a significant relationship between firm/group factors and the loan repayment among customers of commercial banks in Kenya. This is to mean that before giving a loan lenders should examine the small business's credit rating and look for evidence of its ability to repay the loan, in the form of past earnings or income projections.

The study also concludes that there is a significant relationship between individual borrowers' factors and the loan repayment among customers of commercial banks in Kenya. Banks should screen the borrowers and select the "good" borrowers from the "bad" borrowers and monitor the borrowers to make sure that they use the loans for the intended purpose. This is important to make sure the borrowers can pay back their loans.

The study further concludes that there is a significant relationship between loan factors and the loan repayment among customers of commercial banks in Kenya. The causes of non-repayment include: inherent characteristics of borrowers and their businesses, characteristics of lending institution and systematic risk from the external factors.

5.5 Recommendations

1. From the findings and conclusion, the study recommends that commercial banks need to have mandatory supervision borrowers on loan utilization and repayment. Such supervision will enable the commercial banks monitor the performance of borrowers closely done. Also training of borrowers before and after receiving loans should be done focusing on areas such as business management, book keeping and savings. Such measures will bring down the rate of defaulters.

2. The study also recommends that banks should apply efficient and effective credit risk management that will ensure that loans are matched with ability to repay, no or minimal insider lending, loan defaults are projected accordingly and relevant measures taken to minimize the same.

3. The study further recommends that commercial banks should pool together and establish a credit information bureau to which reference can be made before a loan is disbursement.

4. Moreover, the study recommends that to mitigate the repayments problems, a close relationship between lender and borrower can be applied through monitoring, business adviser and regular meeting. Besides that, the lender can introduced reward system to those that paid on time such as rebate or discount.

5. Finally, the study recommends that commercial banks should also apply rigorous policies on loan advances so as loans are awarded to those with ability to repay and mitigate moral hazards such as insider lending and information asymmetry.

5.6 Suggestions for further studies

The following areas are recommended for further research:

1. causes of loan failures - to broadly assess the institutional, behavioral and environmental aspects from both the lenders' and borrowers' perspective;
2. Borrowers' characteristics and their capacity for credit management.

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APPENDICES

Appendix I: Introduction Letter

Kenneth Ochung'

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Dear Respondents,

I am a postgraduate student at the University of Nairobi- Project Planning and Management undertaking a research on "**LOAN REPAYMENT AMONG CUSTOMERS OF COMMERCIAL BANKS IN KENYA: A CASE OF BARCLAYS BANK OF KENYA, NAIROBI COUNTY**" Which is a requirement for the award of the Degree of Master of Arts in Project Planning and Management. I'm therefore requesting your assistance to fill the attached questionnaires by ticking and recording the appropriate answers. The information given will be handled confidentially, and will only be used only for academic intention.

Yours faithfully,

Kenneth Ogol Ochung

Appendix II: Questionnaire for Staff

SECTION A: DEMOGRAPHIC INFORMATION

1. Please indicate your Gender Male [ ] Female [ ]
2. Please indicate your position at Barclays bank of Kenya?
   Credit Administration Manager [ ] Account Relationship managers [ ]
3. How many years have your worked with Barclays Bank of Kenya?

   Below 5 years [ ] 6-10 years [ ] 11-15 years [ ]

   Above 16 Years [ ]

SECTION B: FIRM/GROUP FACTORS

4. Does the amount of time taken for the loan to be approved affect loan repayment possibility?

   Yes [ ] No [ ]

   Please explain?

   ……………………………………………………………………………………………
   ……………………………………………………………………………………………
   ………………

5. Below is a list of some firm features that affect the possibility of loan repayment among commercial banks. (Please tick ALL that affect the loan repayment at Barclays Bank of Kenya)

   Location of business operations [ ]
   Amount of loan taken [ ]
   The interest rates charged [ ]
   Firm performance [ ]
   Inflation levels in the economy [ ]
   Investment opportunities [ ]

Other (please specify) [ ]

____

6. Below are statements on bank factors that affect the loan repayment of customers. On a scale of 1-5 where 5= strongly agree, 4= agree, 3=neutral, 2= disagree and 1= strongly disagree, please rank your level of agreement with each statement.

Statement	1	2	3	4	5
The information requested by the Bank from the loan applicant is readily available					
The information requested by the Bank accurately predicts the repayment ability of the loan applicant					
The performance of the Bank in form of performing loans affects the amount of loans to customers					
The amount of information provided by the applicant affects loan repayment					
The speed of loan approvals in the bank affects customers loan repayment					
The amount of loan advanced					
The loan repayment period					

7. To what extent do the Bank factors affect loan repayment at Barclays Bank of Kenya Limited?

Very great extent ( ) Great extent ( )
Moderate extent ( ) Little extent ( )
No extent ( )

SECTION C: INDIVIDUAL BORROWERS' FACTORS

8. Does the age of the borrower affect the possibility of loan repayment?

Yes [ ] No [ ]

Please explain?

……………………………………………………………………………………………

……………………………………………………………………………………………

………………

9. What are the major individual borrowers factors affecting their loan repayment behavior and ability? (Please tick ALL that apply)

Age [ ]

Gender [ ]

Profession of the borrower [ ]

Education Background [ ]

Income level [ ]

Nature of business operated [ ]

Borrower's experience (1st/2nd etc borrower) [ ]

Location of business operations [ ]

Amount of loan taken [ ]

Other (please specify) [ ]

____

10. Below are statements on the borrowers' factors that affect the rate of loan repayment. Use a scale where 5 strongly agrees, 4 agree, 3 neutral, 2 disagree, 1 strongly disagree, please indicate your level of agreement with each statement.

Statement	1	2	3	4	5
The kind of collateral pledged as security for the loan					
The number of years the customer has banked with Barclays Bank of Kenya					
The type of account a customer maintains with BBK					

11. To what extent do the borrowers' factors affect the level of loan repayment at BBK?

Very great extent	( )	Great extent	( )
Moderate extent	( )	Little extent	( )
No extent	( )		

SECTION D: LOAN FACTORS

12. What loan factors affect the level of loan repayment at BBK?

Interest rates charged on the loan [ ]

Proportion of negotiation fees [ ]

Maturity period of the loan [ ]

Grace period before repayment starts [ ]

Type of loan (Fixed/ variable interest) [ ]

Amount of credit advanced [ ]

Other (Please specify) [ ]

____

13. To what extent do loan factors have an effect on loan repayment among customers of commercial banks in Kenya?

Very great extent	( )	Great extent	( )
Moderate extent	( )	Little extent	( )
No extent	( )		

THANK YOU

Appendix III: Questionnaire for Customers

SECTION A: DEMOGRAPHIC INFORMATION

1. Please indicate the name of your organization (optional) --------------------------------
2. How long have you banked with Barclays Bank of Kenya?

   Below 5 years [ ] 6-10 years [ ] 11-15 years [ ]

   Above 16 Years [ ]

3. What types of accounts do you hold at BBK?

   Current Accounts [ ] Savings Accounts [ ]

   Both current and savings [ ] Fixed Deposit Account [ ]

SECTION B: FIRM/GROUP FACTORS

4. Does the amount of time taken for the loan to be approved affect loan repayment possibility?

   Yes [ ] No [ ]

   Please explain?

   ………………………………………………………………………………………… ………

5. Below is a list of some firm features that affect the possibility of loan repayment among customers of commercial banks. (Please tick ALL that affect the loan repayment at Barclays Bank of Kenya)

   Location of business operations [ ]

   Amount of loan taken [ ]

   The interest rates charged [ ]

   Firm performance [ ]

   Inflation levels in the economy [ ]

   Investment opportunities [ ]

Other (please specify) [ ]

____

6. Below are statements on bank (firm) factors that affect the loan repayment of customers. On a scale of 1-5 where 5= strongly agree, 4= agree, 3=neutral, 2= disagree and 1= strongly disagree, please rank your level of agreement with each statement.

Statement	1	2	3	4	5
The information requested by the Bank from the loan applicant is readily available					
The information requested by the Bank accurately predicts the repayment ability of the loan applicant					
The performance of the Bank in form of performing loans affects the amount of loans to customers					
The amount of information provided by the applicant affects loan repayment					
The speed of loan approvals in the bank affects customers loan repayment					
The amount of loan advanced					
The loan repayment period					

7. To what extent does the Bank factor affect loan repayment of customers?

Very great extent ( ) Great extent ( )

Moderate extent ( ) Little extent ( )

No extent ( )

SECTION C: BORROWERS' FACTORS

8. Does the age of the borrower affect the possibility of loan repayment?

Yes [ ] No [ ]

Please explain?

…………………………………………………………………………………………

…………………………………………………………………………………………

………………

9. What are the major individual borrowers factors affecting their loan repayment behavior and ability? (Please tick ALL that apply)

Age	[ ]
Gender	[ ]
Profession of the borrower	[ ]
Education Background	[ ]
Income level	[ ]
Nature of business operated	[ ]
Borrower's experience ($1^{st}/2^{nd}$ etc borrower)	[ ]
Location of business operations	[ ]
Amount of loan taken	[ ]
Other (please specify)	[ ]

____

10. Below are statements on the borrowers' factors that affect the rate of loan repayment. Use a scale where 5 strongly agrees, 4 agree, 3 neutral, 2 disagree, 1 strongly disagree, please indicate your level of agreement with each statement.

Statement	1	2	3	4	5
The kind of collateral pledged as security for the loan					
The number of years the customer has banked with Barclays Bank of Kenya					
The type of account a customer maintains with BBK					
The level of monitoring exerted by the Bank					

11. To what extent does the borrowers' factor affect the level of loan repayment at BBK?

Very great extent	( )	Great extent	( )
Moderate extent	( )	Little extent	( )
No extent	( )		

SECTION D: LOAN FACTORS

12. What loan factors affect the level of loan repayment at BBK?

Interest rates charged on the loan [ ]

Maturity period of the loan [ ]

Grace period before repayment starts [ ]

Type of loan (Fixed/ variable interest) [ ]

Amount of credit advanced [ ]

Other (Please specify) [ ]

____

13. To what extent do loan factors have an effect on loan repayment among customers of commercial banks in Kenya?

Very great extent	( )	Great extent	( )
Moderate extent	( )	Little extent	( )
No extent	( )		

THANK YOU