ABSTRACT

Institutions involved in lending face several risks such as financial risk, Operational Risk, Economic risk, and Credit Risk like any other institution. However Credit risk is one of the major risks within most institutions which are likely to make a company go under. To assess credit risk, lenders gather information on a range of factors, including the current and past financial circumstances of the prospective borrower, the nature and value of the property serving as loan collateral. Poor credit risk management practices leads to rising non-performing loans which compresses profit margins. The study sought to establish the relationship between the borrower credit score and its credit repayment performance. The researcher adopted a co relational research design. The study population consisted of all 100 corporate clients who had been given loans by the Agricultural Finance Corporation (AFC) over a period of 5 years. This study used data collected through secondary sources such as the financial statements of a particular client in his file which formed the basis of giving the client loan as well as their credit scores over a period of five years. Data was captured and analysed using Statistical Package for the Social Sciences (SPSS) version 21. Regression analysis was used to determine the relationship between credit scoring and repayment performance of a borrower. The study found out that the use of credit scoring of a particular borrower positively and significantly influenced the repayment performance in AFC as it facilitates quick loan turnaround, consistency in lending, and basis for risk pricing. The study recommended that AFC should cooperate with other credit institutions to ensure that they get in depth information on clients before advancing loan to them. This will make it easy to know the credit history of a client and the repayment performance of individuals. In turn this will benefit AFC and will be important to help avoid a situation where they award loans to clients who have defaulted loans elsewhere. The credit scoring process at times can be long and tedious and as a consequence scaring clients away to look for credit elsewhere. AFC should ensure that the credit scoring process is short but effective. More research needs to be carried out in other lending institutions such as Saccos and microfinance institutions and commercial banks to get an insight on various credit scoring models or methods used.