

Significance of the factors contributing to non-performing loans in Commercial Banks in Kenya

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Abstract:

Non-performing loans has been a persistent problem in Kenyan commercial banks. Several factors leading to non-performing loans have been identified but the significant contribution of each factor has not been identified. This study aimed at determining the significance of the factors leading to non-performing loans problem in commercial banks in Kenya. A survey of commercial banks in Kenya was done. Out of 43 commercial banks, 28 banks responded to the questionnaires amounting to a response rate of 65%. The factors leading to non-performing loans were divided into 3 categories, bank related factors, economic factors and customer related factors. To rank the factors according to their significance, a likert scale continuum was used then Factor Analysis was used to determine their significance. The findings of this study revealed that borrowers' company dissolution have the highest significant contribution to non-performing loan problem. The second factor was death of the borrower. The study further revealed that the major factors the bank management need to pay attention to are: poor monitoring and control of loans by bank management, breach of contact, lack of proper knowledge, artificial and natural disasters, bank takeovers by other banks, company dissolution due to loan default, loss of job by the borrower, bankruptcy of the debtor and closing down of businesses with commercial bank loan due to competition. Commercial banks should have proper monitoring systems and sound credit management to alleviate the problem. The banks should also find out ways of reducing or avoiding the above listed factors. They need to train all the staff on the basic principles of credit and should know their customer very well before granting loans.