ABSTRACT

Nonperforming loans have got an effect on not only the financial institutions but on the entire economy. When non-performing loans continue to increase over time, it makes it difficult for financial institutions including micro finance institutions to manage them. The main aim of this study was to establish the effect of non-performing loans on the financial performance of deposit taking micro finance institutions in Kenya. The study had one objective: to determine the effect of non-performing loans on the financial performance of deposit taking micro finance institutions in Kenya. It involved a survey of deposit taking micro finance institutions in Kenya. The study made use of secondary data that was obtained specifically from the financial statements of the micro finance institutions. The study targeted to collect secondary data from 9 deposit taking micro finance institutions but managed to obtain data from 7 institutions. Multivariate regression analysis was used to establish the effect of these variables of the dependent variable. It was established that the nonperforming loans in deposit taking micro finance institutions account for the greatest percentage of the variance in the profitability of these institutions. All the three independent variables in the study nonperforming loans, rate of loan repayment and operational expenses explain 64.4\% of the profitability of micro finance institutions. However non performing loans and operational expenses have more significant effect than the rate of loan repayment that is achieved by the organizations.