EFFECTS OF CREDIT WORTHINESS INFORMATION SHARING ON THE RATE OF LOAN DEFAULT AMONG COMMERCIAL BANKS IN KENYA

BY

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ABSTRACT

Financial Institutions are in the business of mobilizing and lending financial resources to borrowers. They assume various kinds of financial risks in the process of mobilizing and lending financial resources. This study sought to investigate the effect of credit worthiness information sharing on the rate of loan default among commercial banks in Kenya. The objective of the study was to establish the effect of credit information sharing on the rate of loan default among commercial banks in Kenya. Specific objectives of this study comprised of establishing the effect of loan characteristics on the rate of loan default, effects of borrowers' characteristics on the rate of loan default, effects of banks collection policy on the rate of loan default and effects of credit information sharing on the rate of loan default among commercial banks in Kenya. Mixed research design combining the use of descriptive and quantitative research designs were used for this study. The target population comprised of commercial banks in Kenya. The study used proportionate stratified sampling method with a sample size of 14 commercial banks categorised in three strata: local public, local private and foreign commercial banks. The respondents composed of officers directly involved in credit allocation and information dissemination in the bank. For collection of primary data for this study, closed questionnaires were used. Data was analysed using descriptive statistics involving the use measures of central tendency that comprised of mean, mode, median standard deviation and variance.

From the findings, the study revealed that majority of the respondent indicated that loan characteristics affected the rate of loan default among commercial banks in Kenya. The study found that majority of the respondent indicated that borrower's characteristics affected the rate of loan default among commercial banks in Kenya. From the finding the study established that banks' collection policy affected the rate of loan default among commercial banks in Kenya and that there existed a negative correlation between credit worthiness information sharing and the rate of loan default among commercial banks in Kenya. In order for commercial banks in Kenya to reduce the rate of default, there was need for the credit staff to review all the loan proposals presented to the credit officers and ensure that loan proposals undergo the required steps before approval was done. The board of directors ought to review the lending policies and enforce new lending policies aimed at reducing rate of loan default. The study also recommends that banks should start training and advisory services to clients seeking to get loans and bank management needs to come up with favorable repayment period for its clients based on their ability and capability to finance their credit. This would enable the borrower to capitalize on the borrowed funds and a return on investments of which in the long run would lead to reduction of the rate of loan default.

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