DETERMINANTS OF LOAN LENDING POLICY: A COMPARATIVE STUDY OF THE COMMERCIAL BANKS AND THE DEPOSIT TAKING SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES IN NAIROBI.

BY

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DECLARATION

This research project is my original work and has not been presented for any degree in any other University or any other award.

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This work is dedicated to my late father Mr. Simion Begi Orenge and my mother Mrs. Prisca Bosibori Begi and my brother and Sisters Kennedy, Divinah, Isabellah and Mercyline.
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ABSTRACT

The loan lending policy has been identified as the major bottleneck inhibiting commercial banks and other financial institutions in meeting the credit needs of the credit demand in the market (Adera, 1995, Economic Survey, 1998). As a result, a disparity exists between credit demand and credit supplies in the credit market. The entry of deposit-taking SACCOs into the credit market offering similar services; demand deposits, ATM services, Money transfer and other financial services as those offered by commercial banks implies that the supply of credit in the credit market has increased and that the action taken by one of these sectors directly influences the action taken by the other. This study therefore, compares the determinants of loan lending policy of deposit Taking SACCOs and the commercial banks in Nairobi for the period between 2010 and 2011 to determine if the bottleneck identified earlier has been completely removed. The research will target a population of 43 commercial banks and 195 registered Deposit Taking SACCOs as of January, 2010. However, the researcher will conduct a census on all the 43 commercial banks and 29 Deposit Taking SACCOs found in Nairobi. Information relating to the Economic conditions, Monetary policy, Competition in the credit market, quality of loan management staff, and Financial Position of the financial firms will be collected through the administration of questionnaires and careful analysis of secondary sources in cases where primary information is difficult to obtain. This will be done either by physically visiting the institutions to collect data or by directly extracting the information from published records; specifically from financial statements, loan amortization schedules and annual general meetings reports for both commercial banks and Deposit Taking SACCOs in Nairobi. The general objective of the study is to investigate determinants of the loan lending policy; a comparative study of commercial banks and Deposit Taking SACCOs in Nairobi. Because of the resource constraints and wide spread of target institutions, the study will be restricted to Nairobi County. Descriptive research design will be used to analyze the information and data collected. Relevant theoretical and empirical literature has been reviewed to appropriately position the work in literature; these are the Economic conditions, monetary policy, Competition in the credit market, quality of loan management staff and Financial Position of the financial firms. Based on the findings of the study; loan lending policy recommendations will be made to help policy makers hold a firm grip on effective business management on a going concern profitability basis. Equally, the findings will suggest to the monetary authorities their role in knitting the gap between demand and supply of credit in a liberalized money market; as it is the case in Kenya.
LIST OF ACRONYMS AND ABBREVIATIONS

SACCOs: Savings and Credit Co-Operative Societies
CFS: Committee on the Financial System
LDCs: Less developed Countries
GDP: Gross Domestic Product
BHCs: Bank house committees
SASRA: Sacco Society Regulatory Authority
ROSCAs: Rotating Savings and Credit Associations
WOCCU: world council of credit unions
CBK: Central Bank of Kenya
CBD: Central Business District
AGM: Annual General Meeting
CIC: Co-operative Insurance Company
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OPERATIONAL DEFINITION OF TERMS

**Loan lending policies**: Are the minimum acceptance criteria which must be met by a prospective borrower to be approved for a loan, regardless of the loan’s price and other terms the bank is willing to offer.

**Sacco society**: Means a savings and credit co-operative society registered under the Co-Operative Societies Act, 1997

**Sacco business**: Means financial intermediation and any other activity by a Sacco society based on co-operative principles and in accordance with Sacco societies act, 2008.

**Deposit Taking Sacco**: a Sacco business in which the person conducting the business holds himself out as accepting deposits on a day-to-day basis: and any other activity of the Sacco business which is financed wholly or to a material extent, by lending or extending credit for the account and at the risk of the person accepting the deposit, including the provision of short-term loans to members

**Non-deposit taking business**: Means SACCO business, other than deposit-taking business

**Formal Financial Institutions**: Refers to all transactions, loans and deposits occurring within the regulation of a central monetary authority such as central bank.

**Informal Finance**: Refers to all transactions, loans and deposits occurring outside the regulations of central monetary authority.

**Semi-formal Finance**: combines the characteristics of both formal and informal finance. It refers to the operations of savings and credit associations, rotating savings and credit associations (ROSCAs), professional money lenders and part-time money lenders like traders.
INTRODUCTION

1.1 Background of the study.

Kenya has a long history of savings and credit co-operative societies (SACCOs). Savings and co-operative societies are the greatest contributor to the economic and social growth of Kenya’s economy; posting approximately $2.7 billion to the national gross income every year (Kuria, 2011). This is besides narrowing the gap between the poor and the rich because they provide an easy access to credit to members based on their savings magnitude. There are 5544 registered SACCOs out of which 3983 are active. By 27th June, 2011; 195 Deposit taking savings and credit co-operative societies had been licensed, 230 were awaiting licensing, 15 were yet to apply while 10 were not continuing with deposit taking activities (SASRA, 2011). SASRA report lists the services offered by deposit taking SACCOs as demand deposits, ATM services, money transfer and other financial services.

There are 43 commercial banks in Kenya (CBK, 2011) which offer similar services as those of deposit taking SACCOs. Aryeetey (1996b) argue that although formal financial institutions offer similar products; these products are not entirely homogenous, implying that both sectors cater for the needs of easily identifiable groups of individuals and businesses, but at the same time serve sections of the total demand for financial services. However, participants from either sector may cross to the other depending on factors like institutional barriers, availability of credit facilities and the ease of physical access. One of the key institutional barriers is loan lending policy by commercial banks.
1.1.1 Loan Lending policy channel adopted by commercial banks

Since the early 1990s there has been an influx of both commercial banks and SACCOs into the credit advancing market (Berry et al., 1996b). The edge of competition between the banks and other formal financial institutions has gone higher and the challenge has remained on the sustainability of the business on a long term profitability basis. There are two basic strategies used by commercial banks in loan lending; (Berry et al.,) 'The going concern approach' and the 'gone concern approach'. The going concern approach seeks to assess whether the loan applicant is a viable entity and will remain so for the foreseeable future. This approach therefore, sets out to analyze the source of repayment; much weight is put upon the future cash generating ability of the borrower. The gone concern approach, in contrast, is more concerned with the value of the assets. The bank, in this case is more interested in knowing what its position will be if the applicant went into liquidation. Assets are therefore adjusted to their forced sale value and compared with the liabilities. If the value of the assets exceeds the liabilities by a sufficient margin then this is taken as evidence that the loan can be repaid. This approach leads to secured lending where the bank secures the value of the loan against the client's assets.

Traditionally, the Kenyan banks have tended to adopt the gone approach to commercial lending. This approach tends to be more conservative in terms of the amount banks are willing to lend. The reason for this is that a bank will not be willing to lend a sum that exceeds the value of the individual assets owned by the applicant. The value of these assets if sold separately which would be the assumption will tend to be lower than their operational value because the assets have lost their energy value. In additional, it will be assumed that the sale of these assets will take place hurriedly in an imperfect market, which will also result in lower value given to the assets.
In contrast, the going concern approach will look forward to projected cash flows generated by the investment and other projects and will not be constrained by the value placed on the assets owned by the applicant. Realizing that the gone concern approach can be a very effective constraint upon the finance available to firms; most commercial banks have adopted the going concern approach which is also popular among many informal financial institution. The American banks operating in London explained their position regarding the use of the going concern approach in their submission to the Wilson committee (1978) as follows: “All banks use an element of both approaches. Members while recognizing that an adequate asset base is a prerequisite to a strong cash flow nevertheless prefer the going concerns approach. Recognizing the medium term requirements of their many customers, they try to match them to medium term lending repayable from cash flow at a rate which will not strain the borrowers’ finances, even if results fall below forecasts. For the same reason, they tend to be less interested in taking a charge over the assets since it is not primarily to the sale of assets that they look for repayment”. To try and counter competition in the domestic lending market; especially from informal financial institutions, most commercial banks have changed their policy and adopted the going concern approach (Ramlogan, 2004). Nowadays bank lending is going concern lending. Loans are made in the belief that the borrower will remain viable and be able to service and repay his debt out of income. The primary concern of analyzing the pay slip of an individual or the balance sheet of an enterprise is to see whether this belief is well founded, and look at the ‘gone concern’ position in a secondary aspect of the test. Indeed the gone concern test is not used at all when propositions currently and, at least it is on the decline in many commercial banks. Instead:

a) Commercial banks are increasingly in monitoring their customers’ internal management accounts so as to ensure lending decisions are made on the basis of comprehensive and up-to-date financial data.
b) The process of analyzing includes looking forward as well as backwards, with increasing use being made of cash flow forecasts and projected balance sheet and profit and loss accounts.

c) The banks are aware of the need to supplement the purely financial data available to them with more general evidence of customers' circumstances and prospects which is one reason why a banker considering a loan application is now very likely to visit the customers' premises in the course of this appraisal.

Several studies have searched for empirical evidence of the credit channels by employing aggregate data. An influential work is that by Bernanke and Blinder (1992) that uses a vector autoregression (VAR) model to show that a monetary tightening induces a contraction of bank loans and economic activity. Many researchers have employed this methodology to study different countries (for example, Suzuki 2001, Ashcraft 2006). Though findings using this approach are certainly not inconsistent with bank lending channel, a main critic cited is that contraction of bank loans in the wake of tightly money is likely to contract deposits and lead to depressed aggregate demand for loans through the convectional interest rate channel. Thus, the contraction of bank loans is consistent with both the lending view as well as the traditional interest rate view. This is termed the supply-versus-demand puzzle in Bernanke (1993). Some banks have tried to overcome this problem by using micro-data on banks. An example is Kashyap and Stein (2000) which uses quarterly data at the individual bank level. They observe that monetary policy particularly affect the lending behavior of small banks with less liquid balance sheet.

1.1.2 Economic importance of SACCOs to the economy

Co-operatives are recognized by the Government to be a major contributor to national development, as co-operatives are found in almost all sectors of the economy.
With the total population of Kenya at approximately 40 million, it is estimated that 63% of Kenya’s population participate directly or indirectly in co-operative-based enterprises. Indeed, the Ministry of Co-operative Development and Marketing estimates that 80% of Kenya’s population derives their income either directly or indirectly through co-operative activities. Nevertheless, the greatest contribution of co-operatives to Kenya’s social and economic development is in the financial sector where financial co-operatives (savings and credit co-operatives [SACCOs], Co-operative Bank and Co-operative Insurance Company (CIC) hold substantial savings portfolios, accounting for 31% of gross national savings. The combined assets of all SACCOs are worth approximately $2.7 billion, out of which approximately $2 billion are members’ deposits, which consist of both shares and Savings. Of a total turnover of $323.4 million for the entire co-operative movement in 2007, SACCOs posted a combined turnover of $192 million. Agricultural co-operatives’ total turnover was $112 million. The Co-operatives Bank is now the fourth largest commercial bank in Kenya out of 43 banks.

1.2 Statement of the problem

From the background information (Aryeetey, 1996b, Berry et al., 1996b), it is evident that Commercial banks and other financial institutions fail to cater for the credit needs of the credit demand in the market; mainly due to their lending terms and conditions. Other studies (Adera, 1995, Atieno, 1994, Economic Survey, 1998) show that the lending policies used by the main commercial banks in Kenya do not ensure efficient and profitable use of credit funds. As a result a disparity exists between credit demand and credit supplies in the credit market. The failure of the specialized financial institutions to meet the credit needs in the credit market underlines the importance of a needs oriented financial system for equity in development. Recent studies (Carling, et al., 2011) show that the services offered by commercial banks; which are demand deposits, ATM services, Money transfer and Other financial services are similar to those offered by Deposit-taking SACCOs, but are offered at varying conditions.
This implies that the supply of credit has increased in the credit market and that the action taken by one of the sectors directly influences the action taken by the other. Given that the major bottleneck cited as the cause of a credit supply insufficient market is the lending policy of commercial banks, the study seeks to compare the determinants of loan lending policy in both sectors to determine if the bottleneck cited in the lending policy of commercial banks has been completely removed and if not provide recommendations on how the two sectors ought to act in order to provide a needs oriented financial system for equity in development. This study, therefore, seeks to investigate the determinants of loan lending policy: A comparative study of commercial banks and Deposit-taking Saccos in Nairobi.

1.3.1 General Objectives.

The general objective of the study is to investigate the determinants of loan lending policy: a comparative study of the commercial banks and the deposit-taking savings and credit co-operative societies in Nairobi.

1.3.2 Specific Objectivities

a) To determine the effect of Economic conditions on loan lending policy.

b) To establish the influence of the quality of loan management staff on loan lending policy.

c) To establish the effect of competition in the financial sector on loan lending policy.

d) To determine the effect of the financial position of the financial institution on the loan lending policy.

e) To determine the influence of the monetary policy on loan lending policy.
1.4 Research Questions

The study tested the following research questions:

a) How do economic conditions affect the loan lending Policy?

b) How does the quality of loan management staff influence the loan lending policy?

c) How does competition in the financial Sector affect the loan lending policy?

d) How does the financial position of the financial institution affect the loan lending policy?

e) How does the monetary policy influence the loan lending Policy?

1.5 Significance of the study

The study sought to contribute relevant information in the following areas:

To the Policy makers for SACCOs and Commercial banks the study will give relevant information to the board of governors and managers of deposit taking SACCOs and Banks on affective loan lending policies that will ensure that they keep a grip on the market amid stiff competition while operating at profitability levels. The government also stands to benefit in that it will find the results of the study valuable in formulation of Legislation that govern effective and ethical relationships among financial institutions and between these institutions and their clients in regard to loan lending and repayment guidelines. The society in general stands to gain through increased access to credit at affordable terms. Increased access to credit on favorable lending terms for purposes of investment and personal development raises the living standards of the society. Public and private research institutions such as SASRA and CBK will equally find the results of this study useful in explaining the economic phenomenon observed in the future.

1.6 Scope of the study.

This study covered Deposit Taking SACCOs and commercial banks operating within Nairobi County over the two year period (2010 to 2011).
The researcher considers this period because the SACCO Societies Act, under which the SACCO Societies Regulatory Authority (SASRA) was established with the mandate of licensing SACCO societies to carry out deposit taking business came into force in the year 2008. However, the SACCO societies (deposit-taking Sacco business) Regulations 8(1) came into force in 2010 and therefore, the full and fair disclosure of accounts in accordance with the established SACCO standards were presented in the year 2010.

Part (iv) talks of disclosure requirements, auditing and accounts. Standardization and uniformity of annual audited financial reports ensures credibility of the information obtained. This is important given that all the deposit-taking Sacco business and Commercial Banks operating in Nairobi are to be included. Primary data will be collected through the administration of questionnaires to be filled by the credit managers of the respective banks and deposit taking SACCOs. In cases where a branch has more than one credit manager, the senior manager will fill the questionnaire. However, Secondary data will be extracted directly from audited annual or semi-annual financial reports.

1.7 Limitation of the study

This study involved the analysis of questionnaires and audited annual reports presented by Commercial Banks and deposit taking SACCOs at the annual general meetings (AGMs). Most SACCOs do not publish their annual financial reports in public media. This posed challenges in accessing Secondary data. Similarly, some managers especially from banks were hesitant in supplying certain required information terming it as too sensitive to be issued, thus declined to provide such data as required in the questionnaire. Other managers refused completely to fill out questionnaires while others choose to give personal views as opposed to true and fair facts as they appear in the records.
Equally the study covered the trends within a span of three years; between 2009 and 2011. In an ideal study, a longer span of time would have been required say five years.

Similarly an ideal research should be conducted in all deposit taking SACCOs and Commercial Banks in Kenya and involve more stakeholders such as shareholders and board of directors, but because of resource constraints and time this was not possible. The selection of Nairobi County deposit-taking SACCOs and Commercial Banks limited its generalization to other deposit-taking Saccos and Commercial Banks in other regions of Kenya. Being an academic research, the study was conducted within a given limited period of time.
CHAPTER TWO
LITERATURE REVIEW

2.0 INTRODUCTION

The loan lending policies are defined as minimum acceptance criteria which must be met by a prospective borrower to be approved for a loan, regardless of the loans price and other terms the bank is willing to offer. Access to financial services especially, by small scale enterprises is normally seen as one of the constraints limiting their benefits from credit facilities. However, in most cases the access problem, especially among formal financial institutions, is one created by the institutions mainly through their lending policies. This is displayed in the form of prescribed minimum loan amounts, complicated application procedures and restrictions on credit for specific purposes (Schmidt and Kropp, 1987). Schmidt and Kropp (1987) further argue that the type of financial institution and its policy will often determine the access problem. Where credit duration, terms of payment, required security and the provision of supplementary services do not fit the needs of the target group, potential borrowers will not apply for credit even where it exists and when they do, they will be denied access. This chapter reviews theories relating to determinants of loan lending policies, it also covers a review of empirical studies on the dependent and independent variables.

2.1 Theoretical Review.

Credit markets in Africa have mainly been characterized by the inability to satisfy the existing demand for credit for large, medium and small enterprises. However, whereas for the informal sector the main reason for this inability is the small size of the resources it controls, for the formal sector it is not an inadequate lending base that is the reason (Aryeetey, 1996b).
Rather, the reasons are difficulties in loan administration like screening and monitoring, high transactions costs and the risk of default. Credit markets are characterized by information asymmetry, agency problems and poor contract enforcement mechanisms (Nissanke and Aryeetey, 1995). They are mainly fragmented because different segments serve clients with distinct characteristics. Because of this, lending units are unable to meet the needs of borrowers interested in certain types of credit. The result is a credit gap that captures those borrowers who cannot get what they want from the informal market, yet they cannot gain access to the formal sources. Enterprises that want to expand beyond the limit of self-finance but lack access to bank credit demand external finance, which the informal sector is unable to satisfy. Two main theoretical paradigms have been advanced to explain the existence of this fragmentation: the policy-based explanation and the structural-institutional explanations (see Aryeetey et al., 1997).

2.1.1 Policy based theory

According to the policy based explanation, fragmented credit markets (in which favored borrowers obtain funds at subsidized interest rates, while others seek funds from expensive informal market) develop due to repressive policies that raise the demand for funds. Unsatisfied demand for investible funds forces credit rationing using non interest rate criteria, while an informal market develops at uncontrolled interest rates. Removing these restrictive policies should therefore enable the formal sector to expand and thereby eliminate the need for informal finance.

2.1.2 Structural-institutional theory

According to the structural-institutional explanations, imperfect information on creditworthiness as well as cost of screening, monitoring and contract enforcement among lenders, result in market failure due to adverse selection and moral hazard, which undermines the operation of financial markets.
As a result, lenders may resort to credit rationing in the face of excess demand, thus establishing equilibrium even in the absence of interest rate ceilings and direct allocations. Market segmentation then results. Market segments that are avoided by the formal institutions due to institutional and structural factors are served by informal agents who use personal relationships, social sanctions and collateral substitutes to ensure repayment. An extended view of this explanation is that structural barriers result in monopoly power, which perpetuates segmentation.

A further explanation is that fragmentation exists due to inherent operational characteristics of the markets. Looking at the role of informal financial sectors in Ghana, Aryeetey and Gockel (1991), attempted to investigate factors that motivate the private sector to conduct financial transactions in the informal financial sectors. They argue that the informal sector derives its dynamisms from developments in the formal sector as well as from its own internal characteristics. The formal and informal sectors offer similar products that are not entirely homogenous, implying that both sectors cater for the needs of easily identifiable groups of individuals and businesses, but at the same time serve sections of the total demand for financial services. However, participants from either sector may cross to the other depending on factors like institutional barriers, availability of credit facilities and the ease of physical access. Rayeetey and Gockel (1991) examine some of the factors that influence demand for formal savings and lending facilities in Ghana and observe that incomes, bank formalities and banks’ preference for large transactions were the major ones. Travel costs and time are among other factors that determine transactions costs to the entrepreneurs.
2.1.3 Information Asymmetry Theory

Lack of information creates problems between the parties involved. One party may lack sufficient information about the other party to make an informed decision. Managers of banks and borrowers alike require information from each other in order to interrelate effectively. Asymmetric Information in financial markets can adopt any of the following forms: Adverse selection, Moral hazard or monitoring costs. A lender suffers adverse selection when he is not capable of distinguishing between projects with different credit risk when allocating credit. Given two projects with equal expected value, the lender prefers the safest one and the borrower the riskiest. In this context, those undertaking risky activities find it convenient to hide the true nature of a project, thereby exploiting the lender's lack of information. By moral hazard we mean the borrower's ability to apply the funds to different uses than control over the borrower. As in the moral hazard case, monitoring costs are tied to hidden action by the borrower, who takes advantage of his better information to declare lower-than-actual earnings. Bernanke and Gertler (1995) suggested two mechanisms through which monetary policy may affect bank loan supply: the bank lending channel or the narrow credit channel and the balance sheet channel, also known as broad credit channel. Both channels exist because of market frictions, in particular asymmetric information between banks and borrowers (balance sheet channel) or between banks and their lenders (bank lending channel), and eventually affect the final supply of loans. The existence of bank lending channel is conditional on two important assumptions. First, monetary policy decisions impact bank liquidity position, and second, changes in the supply of loans affect borrowers, because of constrained access to other sources of financing than bank loans. Tightening of monetary policy usually leads to decrease in the demand for deposits because banks adjust their deposits rates only partially to the changes in official rates.
This, in effect drains liquidity from the banking sector to equity investment funds. Shrinking banks' liabilities forces banks to decrease the supply of loans accordingly. Balance sheet channel works because changes of the monetary interest rates affect the net wealth or collateral of borrowers and thereby have an impact on the possibilities of obtaining external financing. Thus, a decline in the net wealth of borrowers (due to increased interest rates), increases the external finance premium they have to face on the credit market and shifts upwards the bank loan supply curve to these borrowers. Some authors recall Modigliani-Miller paradigm and argue that banks may offset a drain of deposits by increasing non-deposit source of financing, e.g. issuing deposit certificates (Stein, 1998; Roer, 2000). However, due to information asymmetries, frictions exist and banks tap non-deposit sources of funds to a different extent. Adjustments on the asset aside of the balance sheet by selling liquid assets may cushion to some extent the funding problems of banks; however both liquidity and constraints limit substantially this kind of adaptation. In effect, increased cost of funding shifts the loan supply curve upwards. This effect should be less pronounced in case of banks which have better access to alternative sources of financing, e.g. are larger (Kashyap and Stein, 1995), well capitalized (Peek and Rosengren, 1995; Kishan and Opiela, 2000; Van den Heuvel, 2002) or have better liquidity position (Stein, 1998; Kashyap and Stein, 2000).

2.2 Empirical Review

The empirical literature has shown that banks have rules that guide them in the process of awarding credit. Credit control policy is the general guideline governing the process of giving credit to bank customers. The policy sets the rules on who should access credit, when and why one should obtain the credit including repayment arrangements and necessary collaterals. Studies on financial markets in Africa have shown that credit markets are segmented and unable to satisfy the existing demand for credit.
Whereas for informal markets it is the limited resources that bring the constraints, for the formal sector it is the difficulty in loan administration that is the problem (Aryeetey, 1996a). There are no homogenous factors affecting loan lending policy universally. However, most studies have found some standard criteria to assess the determinants of loan lending policies. The range of factors include economic conditions, competition in the credit market, quality of loan management staff, monetary policy and financial position of a financial firm (Tsapin and Zholud (2006); Black (2006); Van den Heuvel (2005). In line with these studies the variables chosen as independent variables are briefly discussed below.

2.2.1 Economic Conditions
The general performance of the economy is reflected by the macroeconomic aggregates including the gross domestic product (GDP), employment level, industrial capacity utilization, inflation, money supply and exchange rate. Banks therefore adjust their lending behaviour in response to the signals from these factors, such that positive signals make banks become more favourably disposed to lending and vice versa. Bank loan portfolio including volume, tenor and structure may be generally influenced by their expectations of the performance of economy both in terms of stability and quantum/level of performance. As indicated by Talavera, Tsapin and Zholud (2006) banks make out more loans during periods of boom and reduced level of macroeconomic uncertainty and curtail lending when the economy is in recession. It is thus expected that an understanding of how banks adjust their credit behaviour in the face of favourable and volatile environment will guide bank credit policy formulations and an appropriate guidance for macroeconomic policy makers. A study by Kishan and Opiela (2000) found that lending by banks with a low capital ratio seems to react more strongly to monetary policy shocks. Generally, if bank equity is low, the monetary policy effects on lending via the bank capital channel may be weak initially, but will be much larger after several quarters.
Beaudry, Caglayan and Schiantarelli (2001) investigated the impact of aggregate price uncertainty on the time-variation in cross sectional distribution of investment at the aggregate and industry level using United Kingdom (UK) firm level data.

They found that the cross-sectional distribution of investment narrows –implying more homogeneous investment behaviours across firms during times of uncertainty. Whereas, a reduction in inflation uncertainty leads to a widening dispersion as higher –quality information allows firms to invest in projects with deferring expected returns. Impliedly the study confirmed that inflation uncertainty hinders efficient allocation of resources. Micco and Panizza (2004), tested how bank ownership affects bank lending behaviour over the business cycle in developed and developing countries and measured lending behaviour as the growth rate of loans by banks in each country. They found that loan growth is indeed correlated with macroeconomic shocks as measured by GDP growth. Specifically, a 1-percent increase (drop) in GDP is associated with a 1.46 per cent increase (drop) in lending by private domestic banks with a similar pattern exhibited by public banks. They also found that credit cyclicality is much lower in industrialized countries than in developing countries (the elasticity goes from 1.4 to 0.5) and that the lending activity of state-owned banks located in industrial countries seems to be counter-cyclical. Gambacorta and Iannoti (2005) investigated the velocity and asymmetry in response of bank interest rates (lending, deposit, and inter-bank) to monetary policy shocks (changes) in Italy from1985-2002 using an Asymmetric Vector Correction Model (AVECM) that allows for different behaviours in both the short-run and long-run. The study shows that the speed of adjustment of bank interest rate to monetary policy changes increased significantly after the introduction of the 1993 Banking Law, interest rate adjustment in response to positive and negative shocks are asymmetric in the short run, with the idea that in the long-run the equilibrium is unique.
They also found that banks adjust their loan (deposit) prices at a faster rate during period of monetary tightening (easing). De Young, Gron, and Winton (2005) examined factors influencing debt overhang in the US small banks (banks with assets less than $1 billion) and found a support for the loan-supply motivations for the pro-cyclic nature of bank lending. During an economic expansion demand for lending is high and business profitability is good, resulting in more profitable loans, more bank capital, and an expanding credit environment in which banks lend more at lower rates as they compete for business. As the economy slows, some businesses will suffer lower income or even losses, leading to delinquent loan payments or outright default, reductions in bank capital, and a tighter credit environment as banks make fewer loans at higher rates. Their findings also indicate that risk overhang effects from outstanding loans work to decrease loan supply during a recession even more than would be implied by the reduction in bank capital alone. In some cases, banks will enter into multi-currency credit commitments that permit borrowers to select the currency they prefer to use in each rollover period. Foreign exchange risk can be intensified by political, social, or economic developments. The consequences can be unfavourable if one of the currencies involved becomes subject to stringent exchange controls or is subject to wide exchange-rate fluctuation. In conclusion we note that there is no consensus on the effect of the magnitude of each of the macroeconomic factors on lending policies. There is however, consensus that macroeconomic factors do indeed determine the loan lending policy adopted by any financial institution.

2.2.2 Competition in the credit Market.

Prior to 2003, Kenya’s economy and financial system was heavily regulated and dominated by the public sector. A complicated regulatory regime required firms to obtain licenses for most economic activities, and many industries were reserved for the public sector, including much of the financial system.
In many less developed countries (LDCs), inefficient domestic banks and a lack of competition among lenders result in high borrowing costs and limited financial access for many firms.

More developed countries, such as the U.S., Japan, and those in the European community, argue that LDCs should allow foreign banks to enter into their economies. However, LDCs seem to be in favor of finding local solutions for local problems; the introduction of deposit-taking SACCOs through a SACCOs Regulatory Act 2008 is supposed to bridge the gap left by commercial banks, scale the height of competition and improve on service delivery. The level of competition is affected by the interest rate regime of a financial institution, range of loan products offered and terms and conditions of credit. The framework for interest rate analysis is the Sharpe (1990) theory of insider vs. outsider lending, which is a benchmark model for analyzing competition between an informed and uninformed lender. The Sharpe theory begins with the assumption that a lender learns private information about a firm through the process of making a loan. The information-gathering process then creates an information asymmetry between the existing lender and other potential lenders. Von Thaden (2004) shows that the asymmetry leads to a winner’s curse for the outsider, who wins a higher proportion of bad firms. Despite the winner’s curse, Black (2006) shows that the empirical implication on the model for observed interest’s rates differs across the parameter space. By increasing competition, Deposit taking SACCOs entry into the credit market may increase the supply of credit and improve efficiency. Improved policies that are more sensitive to the needs of loan borrowers are likely to be adopted by major players in the financial sector to ensure that they operate profitably amid a competitive environment. Other studies carried out show that the entry of additional financial firms into the credit market would improve the competitive efficiency of the financial sector and induce an upgrading of banking technology.
For example, Todd A. Gormley, 2007 says that Following a balance of payments crisis in India in 1991, a number of structural reforms were implemented that greatly deregulated many economic activities, and in November 1991, a broad financial reform agenda was established in India by the Committee on the Financial System (CFS). The CFS was appointed by the Government of India to examine the existing financial system and make recommendations for improving its efficiency so as to more effectively meet the credit needs of firms. One of the committee’s recommendations to meet this goal was to introduce greater competition into the banking system by allowing more foreign banks to enter India.

2.2.3 Quality of loan management Staff

The loan policy is the primary means by which senior management and the board guide lending activities. Although the policy primarily imposes standards, it also is a statement of the bank’s basic credit philosophy. It provides a framework for achieving asset quality and earnings objectives, sets risk tolerance levels, and guides the bank’s lending activities in a manner consistent with the bank’s strategic direction. Loan policy sets standards for portfolio composition, individual credit decisions, fair lending, and compliance management. To properly administer the loan portfolio, the bank should clearly define the roles and responsibilities of management. Typically, one person or group is responsible and authorized to take the steps necessary to assure that risk in the portfolio stays within acceptable bounds. Since this goal can be accomplished by a variety of structures; there is no one best system that meets the bank’s needs. However, in each case three major questions regarding each loan application must be satisfactorily answered:

1. Is the borrower creditworthy? How do you know?
2. Can the loan agreement be properly structured and documented so that the bank and its depositors are adequately protected and the customer has a high probability of being able to service the loan without excessive strain?

3. Can the bank *perfect* its claim against the assets or earnings of the customer so that, in the event of default, bank funds can be recovered rapidly at low cost and with low risk. In evaluating a client, normally bank credit officers use 5Cs.

These are:

a) Character: The loan officer must be convinced that the customer has a well-defined *purpose* for requesting bank credit and a serious intention to repay.

b) Capacity: The loan officer must be sure that the customer requesting credit has the authority to request a loan and the legal standing to sign a binding loan agreement. This customer characteristic is known as the *capacity* to borrow money.

c) Cash. Three sources of income to repay loans: cash flows generated from sales or income, the sale or liquidation of assets, or funds raised by issuing debt or equity securities must be considered.

d) Collateral: Does the borrower possess adequate net worth or own enough quality assets to provide adequate support for the loan? The loan officer is particularly sensitive to such features as the age, condition, and degree of specialization of the borrower's assets.

e) Conditions: The loan officer and credit analyst must be aware of recent trends in the borrower's line of work or industry and how changing economic *conditions* might affect the loan. To assess industry and economic conditions, most banks maintain files of information-newspaper clippings, magazine articles, and research reports-on the industries represented by their major borrowing customers. Control centers on such questions as whether changes in law and regulation could adversely affect the borrower and whether the loan request meets the bank's and the regulatory authorities' standards for loan quality.
Loan policy should designate who is accountable for the accuracy of risk ratings. The account officer is a logical choice because he or she knows more about the credit than anyone else and should have access to timely financial information from the borrower. Assigning the account officer risk rating responsibility heightens his or her accountability for credit quality and has derivative benefits for loan approvals and account management. Some banks assign risk rating responsibility to a credit officer, loan review officer, or a more senior bank officer. While these officers may be more objective and experienced, they may be less sensitive to subtle changes in the borrower’s condition, and their ratings changes may be less timely. Perhaps most important, making someone other than the account officer accountable may diminish his or her sense of responsibility for identifying and controlling credit risk. A process should be in place to ensure that risk ratings are updated in a timely fashion and that appropriate changes are made anytime there is a significant occurrence. Absent such an event, the frequency of risk rating analysis should be a function of the loan’s complexity and quality, the portfolio’s risk characteristics, and the quality of the lending staff. At a minimum, risk rating evaluations should be conducted annually. More frequent attention should be given to certain kinds of credits — criticized loans, loans to borrowers in a troubled industry, and loans supervised by an inexperienced or weak lender, for example. All risk ratings should be reassessed when significant new information is received. Risk rating analyses should be coordinated with analyses of the allowance for loan and lease losses.

2.2.4 Monetary Policy
Monetary policy is the process by which the monetary authority of a country controls the supply of money, often targeting a rate of interest for the purpose of promoting economic growth and stability. Bernanke and Gertler (1995) suggested two mechanisms through which monetary policy may affect bank lending policy: the balance sheet channel, also known as broad credit channel, and the bank lending channel or the narrow credit channel.
Both channels exist because of market frictions, in particular asymmetric information between banks and borrowers (balance sheet channel) or between banks and their lenders (bank lending channel), and eventually affect the final supply of loans. Balance sheet channel works because changes of the monetary interest rates affect the net wealth or collateral of borrowers and thereby have an impact on the possibilities of obtaining external financing.

Thus, a decline in the net wealth of borrowers (due to increased interest rates), increases the external finance premium they have to face on the credit market and shifts upward the bank loan supply curve to these borrowers. Van den Heuvel (2005) argued that maturity transformation performed by banks, exposes them to interest rate risk. A consequence of this is that a monetary tightening, by raising the short-term interest rate, lowers bank profits. Unless the bank can reduce dividends substantially, this will result over time in lower bank capital and, given the failure of the Modigliani-Miller logic, less lending. Thus, monetary policy affects the supply of bank loans through its effect on bank equity. The existence of bank lending channel is conditional on two important assumptions. First, monetary policy decisions impact bank liquidity position, and, second, changes in the supply of loans affect borrowers, because of constrained access to other sources of financing than bank loans. Tightening of monetary policy usually leads to decrease in the demand for deposits because banks adjust their deposit rates only partially to the changes in official rates. This, in effect drains liquidity from the banking sector to equity investment funds. Shrinking banks' liabilities forces banks to decrease the supply of loans accordingly. Van den Heuvel (2005) argued that monetary policy has a direct effect on the supply of bank loans, and thus the real economy, because banks finance loans in part with liabilities that carry reserve requirements. By lowering bank reserves, contractionary monetary policy reduces the extent to which banks can accept reservable deposits, if reserve requirements are binding.
The decrease in reservable liabilities will, in turn, lead banks to reduce lending, if they cannot easily switch to alternative forms of finance or liquidate assets other than loans.

2.2.5 Financial Position of a financial Institution.

Credit supply is affected by the banks' balance-sheet strength, the so-called bank lending channel (see Adrian and Shin (2010). Demand is affected by the firm balance-sheet strength, the so called firm balance-sheet (Bernanke, Gertler and Gilchrist (1999)). Bank and firm net worth vary over the business cycle, but bank net worth and balance-sheet strength may especially matter in financial crisis times (Gertler and Kiyotaki (2011)). However, fully-convincing identification of the bank and firm balance-sheet channels has remained elusive due to unavailability of detailed micro data (Bernanke and Gertler (1995)). Spain, however, offers an ideal setting for identification: (i) As far as the researcher is aware, Spain is the only country where loan applications are available for all banks and, moreover, include also an identifier for the borrower lodging the application. Hence both bank and borrower identity are known, which is crucial to identify credit availability; (ii) The credit application data can be matched with comprehensive bank balance-sheet data (collected by the supervisor) and complete firm balance-sheet data, which can proxy for the strength of bank and firm balance sheets. This information is essential to distinguish between the bank and the firm balance-sheet channels. Studies analyzing the bank and firm balance-sheet channels using loan applications from Spain which are matched with complete bank and firm balance-sheet data for the period from 2002 to 2010 which is coupled with good economic times up to August, 2007 and the banking crisis period which started in August 2007 and went on until June 2010. When analyzing bank balance sheet strength and loan application granting, found robust evidence that heterogeneity in bank balance-sheet strength does not determine loan granting in good times.
However, it does determine loan granting in crisis times, in particular bank size, capital, liquidity, and the doubtful loan ratio. In consequence, the estimates suggest that credit supply factors only matter in crisis times. In contrast, when the same studies analyzed the effect of firm balance-sheet strength on loan granting, found evidence that firm heterogeneity in balance-sheet strength determines the probability of whether a loan is granted to the applying firm both in good and in crisis times. Firm balance-sheet strength, nevertheless, matters even more in crisis times than in good times, with for example the impact of firm leverage on loan application granting more than doubling in crisis times as compared to in good times.

2.3 Conceptual Framework

Henderson (1994) postulates that the major aim of research should be to “either relate data to a theory or to generate a theory from data”. In order to hold existing and new knowledge, theory should provide a conceptual framework, so that knowledge can be interpreted for empirical application in a comprehensive manner.

Fig 2.1 shows how the researcher has conceptualized the relationship between the various independent variables. This concept has been developed based on the review of both theoretical and empirical literature on the study. The figure indicate that economic conditions, Competition in the credit market, quality of loan management Staff, Monetary policy and financial position of the financial Institution, will all individually influence the determination of loan lending policy adopted by commercial banks and deposit taking SACCOs. The figure also indicates that the Sacco Society Regulatory Authority (SASRA) and the Central Bank Of Kenya (CBK) which are the sole regulatory bodies legally mandated to regulate the activities of Deposit Taking SACCOs and Commercial banks ensure that the parties in the credit market comply with necessary rules and regulations governing their activities, thus their intervention is expected to moderate the relationship between independent and the dependent variable.
Economic Conditions
- Industrial capacity utilization
- Inflation levels
- Exchange rate
- Gross Domestic Product (GDP)
- Money supply
- Employment level

Competition in the credit Market
- Interest rate regime
- Range of loan products
- Terms and conditions of credit
- Geographical spread

Quality of loan management staff
- Working experience
- Educational qualifications
- Exposure to emerging technologies and financial market trends

Monetary Policy
- CBK base lending rate
- Reserve requirements
- Selective credit Control
- Moral Persuasion

Financial position of a financial Institution
- Core capital
- Asset base

Independent Variables

Moderating variable

Regulatory Bodies
SASRA, Kenya
CBK, Kenya

Loan lending policy
- Lending conditions
- Lending controls
- Lending risk management

Dependent variable
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
In this chapter a description of the procedures and strategies that were used in carrying out the study are given. It covers the research design, target population, sampling procedures, data collection procedures, data analysis and presentation.

3.2 Research Design
Research design facilitates the smooth running of the various research operations thereby making research as efficient as possible yielding maximal information with minimal expenditure of effort, time and money (Kothari, 2005). The researcher intends to administer questionnaires and also analyze financial statements, loan amortization schedules as well as AGM reports of sampled Deposit Taking SACCOs and Commercial banks. The research design chosen is descriptive design. Descriptive research studies are designed to obtain pertinent and precise information concerning the status of phenomena and whenever possible draw valid general conclusion from the facts discovered (Lockesh, 1984). The design thus chosen will be appropriate for accurate description of trends, frequencies, interrelationships and statistical analysis.

3.3 Study Model
The general study model for testing the relationship between loan lending policy as measured by, Total Income from loans to total assets ratio and the amount of performing credit as measured by the amount of loans to total assets and Non-performing Credit as measured by Non Performing loans over total assets is:
\[ Y_{i,t} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + E_t \]

Where: \( Y \) = Loan Lending policy as measured by Total Income from Loans to Total Assets Ratio for firm \( i \) at time \( t \)

\( \beta_0 \) is a constant

\( \beta_1 \) and \( \beta_2 \) are Coefficients

\( X_1 \) is the amount of credit as measured by Loans and Advances over Total Assets

\( X_2 \) is the Non-Performing Loans as measured by Non-Performing Loans over Total Loans

\( E_t \) = the error term of firm \( i \) at time \( t \)
Table 3.1: Operationalisation and Measurement of variables

<table>
<thead>
<tr>
<th>variable</th>
<th>Category</th>
<th>Operationalisation</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Lending Policy</td>
<td>Dependent</td>
<td>Decision Making Criteria and includes loan lending conditions, lending controls and lending risk management.</td>
<td>Ratio</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Total Income from loans/Total assets</td>
</tr>
<tr>
<td>Economic Conditions</td>
<td>Independent</td>
<td>Includes GDP, inflation rates, exchange rates, Money Supply, industrial capacity utilization</td>
<td>Likert Scale of 1-5</td>
</tr>
<tr>
<td>Quality of loan Management Staff</td>
<td>Independent</td>
<td>Includes education levels, experience, exposure and number of Credit management staff.</td>
<td>Likert Scale of 1-5</td>
</tr>
<tr>
<td>Competition in the Credit Market</td>
<td>Independent</td>
<td>Includes interest rate regimes, range of loan products, terms and conditions of credit and geographical spread.</td>
<td>Hirchmann-Herfindahl Index (HHI)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$=\sum(NBOi)^2/\sum(NBOi)^2$</td>
</tr>
<tr>
<td>Financial Position of the Lending Institution</td>
<td>Independent</td>
<td>Amount of finance controlled by financial institution represented by core capital and asset base.</td>
<td>Ratio=Amount of Credit/Total Capital for firm i at period t</td>
</tr>
<tr>
<td>Monetary Policy</td>
<td>Independent</td>
<td>Process by which the Central bank of Kenya controls the supply of money, often targeting a base rate of interest, reserve requirement, selective credit control and moral persuasion for the purpose of promoting economic growth and stability.</td>
<td>Standard deviation of Central Bank base lending rate $=\sqrt{(R-R^2)^2}$</td>
</tr>
</tbody>
</table>
Where:

NBOi-Refers to the number of branch office bank or Deposit taking SACCO has in the respective regional market

Interpretation: HHI-Index increases with decreasing intensity of competition. The Coefficients of the HHI index should have a positive sign.

3.4 Population of the study

Population has been defined by Mugenda and Mugenda, (2003) as a set of complete individuals or objects with some common characteristics that differentiate it from other population. Target population therefore refers to that population to which a researcher wants to generalize the results of a study. The population for this research will comprised of all the commercial banks as well as all the registered Deposit taking SACCOs in Nairobi. As at December, 2011 there were 43 Commercial banks and 29 registered Deposit taking SACCOs in Nairobi.

3.5 Sampling technique and sample size

A sample refers to a set of people or objects chosen from a larger population in order to represent that population to a greater or lesser extent (Mason, et al 2003). The size of sample and the way in which it is selected will definitely have implications for the confidence you can have in your data and extent to which you can generalize (Sanders, et al, 2009) the researcher conducted a census. Census technique is where all the members of a group; population or universe, are selected. The sample size for this study was made up of 43 commercial banks and 29 Deposit Taking SACCOs.
Table: 3.2 sampling frame and sample size

<table>
<thead>
<tr>
<th>Commercial Banks</th>
<th>Deposit Taking SACCOs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Operating in</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nairobi, Kenya</td>
<td>43</td>
<td>29</td>
</tr>
<tr>
<td>Deregistered</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total population</td>
<td>43</td>
<td>29</td>
</tr>
</tbody>
</table>

Sampled Firms 43 29 72

(See appendix v and vi for the list of Deposit taking SACCOs and Commercial banks)

3.6 Data collection method

Both primary and secondary data sources were used for this study. Primary data involved the administration of questionnaires. Secondary data are sources containing data that have been collected and compiled for another purpose (Zikmund, 1998). The secondary sources consisted of readily available compendia and already compiled statements and reports, whose data may be used by researchers, before using secondary data, the researcher must see that they possess qualities such as reliability, suitability, adequacy and authenticity (Kothari, 2004). Kothari noted that without these qualities it is very risky to use already available data because it is just possible that the data may be inadequate in the context of the problem which the researcher wants to study.
The main source of data to answer the various research questions will be obtained from Questionnaires as well as audited annual financial statements such as profit and loss accounts, balance sheets, AGM reports, loan amortization schedules of the censured Commercial banks and Deposit Taking SACCOs for years 2010 and 2011.

3.7 Validity and reliability

Joppe (2000) defines validity as the extent to which research truly measures that which it was intended to measure or the truthfulness of the research results. In ensuring validity the researcher carried out a pilot study before the actual study. As suggested by Cooper & Schindler (2006) and Saunders et.al.,(2009), it is important as a matter of reliability and validity to check that the collection instrument is pre-tested before the final administration. Consequently, the instrument will be pre-tested to a sample of 10 Commercial banks and SACCOs based on a suggestion by (Saunders et al.,2009), who assert that a minimum of 10 members for pre-testing is adequate. Equally, the researcher will consult experts in the field of research to benefit from their views in an attempt to ensure validity for this work. The experts envisaged here include the researcher’s supervisors and lecturers. Secondary data obtained from financial statements are those prepared in accordance with the international financial reporting standards (IFRS) by qualified professional accountants in addition to being ratified at the annual general meetings (AGMs) before being published.

3.8 Data Analysis

The data to be collected will be coded and summarized using both qualitative and quantitative techniques (Creswell, 1994). Descriptive statistics, correlation coefficient analysis, Chi-Square tests, frequency distribution tables and regression analysis were used.
CHAPTER FOUR
DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter covers data analysis, presentation, and discussion on data gathered from the field. The major findings as they relate to each of the research objectives are presented. The following are the research objectives that guided the study:

The first objective was to determine the effect of Economic conditions on loan lending policy. This was followed by the objective to establish the influence of the quality of loan management staff on loan lending policy. The third objective was to establish the effect of competition in the financial sector on loan lending policy. The fourth objective was to determine the effect of the financial position of the financial institution on the loan lending policy and finally, to determine the influence of the monetary policy on loan lending policy.

A sample of 72 respondents was chosen for this study from Nairobi County; constituting of 43 Commercial banks and 29 Deposit-taking Saccos. The researcher used the Census technique to ensure that data from all levels was captured to avoid biasness. A semi structured questionnaire having both closed ended and open ended questions was used to collect data. Data was cleaned, coded and analysed using SPSS software.

4.2 Demographics

The study interviewed the credit managers and, or credit officers from the Commercial banks as well as Deposit-taking SACCOS in Nairobi county. Response was obtained from 46 institutions, representing 63.9% of the total target population. The response represented 58.7% (27 of 46) and 41.3% (19 of 46) of the Commercial banks and SACCOS respectively. The proportion of spread of the respondents in terms of department, Institution, gender and education qualification is as shown in Table 4.1, Fig 4.1, Fig 4.2 and Fig 4.3 respectively.
Table 4.1 Department of respondents

<table>
<thead>
<tr>
<th>Department</th>
<th>Bank</th>
<th>Sacco</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of</td>
<td>No. of</td>
</tr>
<tr>
<td></td>
<td>respondent s</td>
<td>respondent s</td>
</tr>
<tr>
<td>Risk assessment</td>
<td>***</td>
<td>1</td>
</tr>
<tr>
<td>Credit approval</td>
<td>24</td>
<td>18</td>
</tr>
<tr>
<td>Document verification</td>
<td>2</td>
<td>***</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>19</td>
</tr>
</tbody>
</table>

Where *** means zero

Fig 4.1 proportion of respondents in Institutions

Source: Research Data (2012)
Fig 4.2 Proportion of respondents in gender

Source: Research Data 2012

Fig 4.3 Academic qualification of credit managers and loan officers

Source: Research Data (2012)
4.3 Loan lending policy

Loan lending policy is referred as the minimum acceptance criteria which must be met by a prospective borrower to be approved for a loan, regardless of the loans price and other terms the bank is willing to offer. This was measured in terms of lending conditions such as duration of saving before applying for a loan, lending controls such as the security required and risk management such as credit methodology controls. 25.5% and 17.6% of respondents in banks as well as in Deposit-taking SACCOs respectively affirm that acceptable security is normally required in order to approve a loan. Equally, 24.5% and 10.6% of respondents in banks and Deposit-taking SACCOs respectively acknowledged that the character of the borrower is taken into account in screening the loan applicant. Also, 22.5% of the respondents in banks stated that they consider future cash flows of the loan applicant as opposed to only 10.6% of the respondents in Deposit-taking SACCOs. Against the common believe Deposit-taking SACCOs recorded the highest number of respondents saying that they consider formal employment of the loan applicant at 20% as opposed to only 2% of the respondents in banks who gave a similar answer. On loan security requirement, both banks and Deposit-taking SACCOs prefer acceptable personal guarantee at 50% and 43.3% respectively and acceptable collateral at 46.9% among banks and 40% among Deposit-taking SACCOs. The preferred credit methodology is Individual lending scoring 92% preference among banks and 78% preference among SACCOs. Mixed credit methodology is equally embraced by Deposit-taking SACCOs at 15% while banks embrace it at 6%. Thus, the least credit methodology used is group; with a preference of 2% among banks and 7% among Deposit-taking SACCOs. The results of the study are laid out in table 4.2, table 4.3, Fig 4.4, Fig 4.5 and Fig 4.6 below.
Fig 4.4 Loan lending conditions

![Pie chart showing factors considered when approving a loan.](image)

- Future cash flows: 22.5% (Bank), 17.6% (Sacco)
- Viability of project: 10.8% (Bank), 7.1% (Sacco)
- Repayment rate: 8.8% (Bank), 8.2% (Sacco)
- Character of borrower(s): 4.9% (Bank), 10.6% (Sacco)
- Available funds: 2.0% (Bank), 7.1% (Sacco)
- Group performance: 1.0% (Bank), 7.1% (Sacco)
- Formal employment: 2% (Bank), 4% (Sacco)
- Acceptable security: 25.5% (Bank), 17.6% (Sacco)

Source: Research Data (2012)

Table 4.2 Distribution of Lending conditions

<table>
<thead>
<tr>
<th>Factor</th>
<th>Bank</th>
<th>Sacco</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td>Percent</td>
</tr>
<tr>
<td>Acceptable security</td>
<td>26</td>
<td>25.5%</td>
</tr>
<tr>
<td>Formal employment</td>
<td>2</td>
<td>2.0%</td>
</tr>
<tr>
<td>Group performance</td>
<td>1</td>
<td>1.0%</td>
</tr>
<tr>
<td>Available funds</td>
<td>5</td>
<td>4.9%</td>
</tr>
<tr>
<td>Character of borrower(s)</td>
<td>25</td>
<td>24.5%</td>
</tr>
<tr>
<td>Repayment rate</td>
<td>9</td>
<td>8.8%</td>
</tr>
<tr>
<td>Viability of project</td>
<td>11</td>
<td>10.8%</td>
</tr>
<tr>
<td>Future cash flows</td>
<td>23</td>
<td>22.5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>102</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
### Table 4.3 Preferred loan security by Institutions

<table>
<thead>
<tr>
<th>Type of loan security</th>
<th>Bank</th>
<th>Sacco</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Preference</td>
<td>Percentages (%)</td>
</tr>
<tr>
<td>Acceptable collateral</td>
<td>15</td>
<td>46.9</td>
</tr>
<tr>
<td>Group guarantee</td>
<td>1</td>
<td>3.1</td>
</tr>
<tr>
<td>Personal Guarantee</td>
<td>16</td>
<td>50</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>32</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field data (2012)

### Fig 4.5 Preferred loan security by Institutions

Source: Research Data (2012)
4.4 Economic Conditions

The economic conditions studied were the inflation levels, exchange rate regimes, Gross Domestic Product (GDP), Money Supply and employment levels. These were compared for a period of three years, that is 2009, 2010 and 2011. The aggregate mean, variance, standard deviation, F test and significance levels of the effect of economic conditions on loan lending policy for the three year period was calculated. According to the results, economic conditions determine the lending policy of Commercial banks more as opposed to Deposit-taking SACCOs. This is shown by higher mean scores and standard deviations of banks as opposed to those of SACCOs for the three year period. The results also reveal that at 95% confidence interval the economic conditions were insignificant in the three years with a score of 0.981, 0.334 and 0.709 or 98.1%, 33.4% and 70.9% in the year 2009, 2010 and 2011 respectively. The results are presented in Fig 4.7 and Table 4.4 below.
Fig 4.7 Degree of influence of economic conditions on loan lending Policy

Table 4.4 Calculated F test and Significance levels at 95% confidence interval

<table>
<thead>
<tr>
<th>L. Lending Policy (Ratios)</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>.001</td>
<td>.981</td>
</tr>
<tr>
<td>2010</td>
<td>.954</td>
<td>.334</td>
</tr>
<tr>
<td>2011</td>
<td>.141</td>
<td>.709</td>
</tr>
</tbody>
</table>

4.5 Competition in the credit Market

Competition in the credit market was studied as determined by variables of Interest rate regime, range of loan products, terms and conditions of credit and geographical spread of institutions. In order to determine the level of competition in the credit market, respondents were asked to rate the strategy used to cope with competition.
Attractive interest rates scored the highest with a preference of 28% among Deposit-taking SACCOs and 22% among banks and an aggregate of 24.5% between the two Institutions. Expanded loan products was second in rank in preference, scoring 26% and 22% preference among banks and Deposit-taking SACCOs respectively; its combined preference was 23.8%. The third preferred strategy by the two Institutions was the relaxed terms of borrowing with a preference of 22% among banks and 15% among Deposit-taking SACCOs and a combined preference of 18.9%. Relationship lending strategy was dominant among banks with a preference of 23% as opposed to only 3% Deposit-taking SACCOs which use the strategy. This confirmed the belief that relationship lending is strongly build around long term friendship between the borrower and the lender, given the fact that most banks have been around for a long time as opposed to Deposit-taking SACCOs. The results are presented in Fig 4.8 and Fig 4.9 below.

Fig 4.8 Steps taken by Institutions to cope with competition

Source: Research Data (2012)
4.6 Quality of loan management Staff

The quality of loan management staff was based on working experience, educational qualifications as well as exposure to emerging technologies. Contrary to the common belief, many of the credit officers in SACCOS are more experienced as opposed to those in banks, this observation is attributed to Institutional mobility of workers; where workers who are more experienced move from banks to Deposit-taking SACCOs. Comparing the educational qualifications, reveals that Commercial banks have more loaning staff with bachelor degrees at 74% as opposed to the 58% of the loaning Staff of the Deposit-taking SACCOs. Those with either a diploma or Professional course are 18.5% in banks and 42% in Deposit-taking SACCOs. Banks had 7.5% loaning staff with a qualification higher than a bachelor’s degree while Deposit-taking SACCOs had none. A Likert scale was used to measure the level of staff preparedness to emerging technologies. 71.9% of the respondents said that they are very well trained (4% SACCO staff and 67.9% bank staff), 33.1% said they are well trained (10% SACCO staff and 22.1% bank staff) while 4% all from SACCOs said that they are fairly well trained. The results are presented in Fig 4.10, Fig 4.11, Fig 4.12, Fig 4.13, Fig 4.14, Table 4.5 and Table 4.6 below.
Figure 4.10 Loan officers experience (in years)

Source: Research Data (2012)

Fig 4.11 Combined Average experience of loan Officers in percentages

Source: Research Data (2012)
Table 4.5 Summary of educational qualification of loan Officers

<table>
<thead>
<tr>
<th>Educ. Qualification</th>
<th>Bank</th>
<th>Percentage</th>
<th>Sacco</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dip/ Prof. Course</td>
<td>5</td>
<td>18.5%</td>
<td>8</td>
<td>42%</td>
</tr>
<tr>
<td>Bachelors</td>
<td>20</td>
<td>74%</td>
<td>11</td>
<td>58%</td>
</tr>
<tr>
<td>Master/Phd</td>
<td>2</td>
<td>7.5%</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100%</td>
<td>19</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Research Data (2012)

Fig 4.12 Academic qualifications of loan officer in percentages

Source: Research Data (2012)
### Table 4.6 Tabulation of loaning Officers preparedness to cope with emerging technologies

<table>
<thead>
<tr>
<th>How officers are equipped</th>
<th>Banks</th>
<th></th>
<th>Saccos</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td>Percent</td>
<td>Frequency</td>
<td>Percent</td>
</tr>
<tr>
<td>Very well trained</td>
<td>19</td>
<td>67.9</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>Well trained</td>
<td>9</td>
<td>22.1</td>
<td>10</td>
<td>50</td>
</tr>
<tr>
<td>Fairly well trained</td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>Are always undergoing refresher courses</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>Planning to start training</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100</td>
<td>20</td>
<td>100</td>
</tr>
</tbody>
</table>

**Fig 4.13 How Loaning Staff cope with emerging technologies**

[Bar chart showing ability to cope with emerging technologies]

**Source: Research Data (2012)**
4.7 Monetary Policy

Monetary policy is a Process by which the Central bank of Kenya controls the supply of money, often targeting a base rate of interest rate, reserve requirement, selective credit control and moral persuasion for the purpose of promoting economic growth and stability. Asked on whether these monetary factors determine the loan lending policy in their Institutions, the respondents rated moral suasion as one with the highest influence at 40.9% and 64.3% among banks and Deposit-taking SACCOs respectively. Selective credit control also received a significant percentage (34.9%) among banks with only 3.6% of respondents in SACCOs responding to the affirmative. Central bank base lending rate received a preference of 12.1% among banks and 21.4% among Deposit-taking SACCOs. The results are presented in Table 4.8, Fig 4.15 and Fig 4.16 below.
### Table 4.7 Frequency of Monetary Policy factors determining institutions lending policy

<table>
<thead>
<tr>
<th>CBK lending policy</th>
<th>Banks</th>
<th></th>
<th>Saccos</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td>Percent</td>
<td>Frequency</td>
<td>Percent</td>
</tr>
<tr>
<td>Base lending rate</td>
<td>8</td>
<td>12.1%</td>
<td>6</td>
<td>21.4%</td>
</tr>
<tr>
<td>Reserve requirements</td>
<td>3</td>
<td>4.5%</td>
<td>2</td>
<td>7.1%</td>
</tr>
<tr>
<td>Selective credit control</td>
<td>23</td>
<td>34.9%</td>
<td>1</td>
<td>3.6%</td>
</tr>
<tr>
<td>Moral suasion</td>
<td>27</td>
<td>40.9%</td>
<td>18</td>
<td>64.3%</td>
</tr>
<tr>
<td>Direct action</td>
<td>5</td>
<td>7.6%</td>
<td>1</td>
<td>3.6%</td>
</tr>
<tr>
<td>Total</td>
<td>66</td>
<td>100%</td>
<td>28</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Fig 4.15 Institutional comparison on Monetary Policy factors determining loan lending Policy**

![Determinant of monetary policy on institutions lending policy](image)
4.8 Financial Position Of a financial Institution

Financial position of a financial institution in this study was represented by the core capital and the asset base of an institution. Majority of banks had a core capital of between 1.1 billion to more than 5 billion at 95.5% while majority of Deposit-taking SACCOs had a core capital of between less than 1 billion to between 3.1 billion at 89.5%. At 95% confidence interval the mean, median and variance of commercial banks is generally higher than those of Deposit-taking SACCOs over the three year period. Equally at 95% confidence interval only the 2011 statistics are significant. The results obtained are represented in Table 4.8, Fig 4.17, Fig 4.18 and the calculated statistics in Table 4.9.
Table 4.8 Distribution of institutions core capital as of December 2011

<table>
<thead>
<tr>
<th>Capital Base in Billions</th>
<th>Bank</th>
<th>Sacco</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>1.1 - 2.0</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td>2.1 - 3.0</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>3.1 - 4.0</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>4.1 - 5.0</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>&gt;5</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>22</td>
<td>19</td>
</tr>
</tbody>
</table>

Fig 4.17 Institutions Financial Position

Financial position (in billions)
Table 4.9 Calculated F test and Significance at 95% confidence interval

ANOVA Test results

<table>
<thead>
<tr>
<th>Financial Position (in Billions)</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>3.295</td>
<td>.076</td>
</tr>
<tr>
<td>2010</td>
<td>3.542</td>
<td>.066</td>
</tr>
<tr>
<td>2011</td>
<td>3.832</td>
<td>.057</td>
</tr>
</tbody>
</table>

Fig 4.18 Mean Core Capital in Billions

![Mean Core Capital in Billions Graph]

Mean Core Capital in Billions

<table>
<thead>
<tr>
<th>Mean Capital in Billions of Kshs</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>3.3881</td>
<td>4.0622</td>
<td>4.8359</td>
</tr>
<tr>
<td>Saccos</td>
<td>1.6811</td>
<td>1.96</td>
<td>2.2811</td>
</tr>
</tbody>
</table>

Year

49
CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
This chapter covers the summary of major study findings; conclusion of the study, recommendations arrived at by the researcher and also presents suggestions for further research.

5.2 Summary of research findings
The study aimed at exploring the determinants of loan lending policy among the commercial banks and Deposit-taking SACCOs in Nairobi County. All the factors studied affect loan lending policy in varying magnitudes. The findings indicate that economic conditions are prevalent among commercial banks as opposed to Deposit-taking SACCOs, the quality of loan management staff determine the loan lending policy effected more in Commercial banks than in Deposit-taking SACCOs. Banks are more competitive in their lending policy than the Deposit-taking SACCOs. Monetary policy determines the lending policy mostly in the tools of selective credit control, CBK base lending rate and moral suasion. Similarly, financial position only determines loan lending policy where the capital base is higher; that is year 2011 (see Table 4.9)

5.3 Answers to research questions
The following are the answers for research questions postulated in chapter one:
Economic conditions mostly affect the loan lending policy through inflation levels, money supply and exchange rate regimes. However, their effect is more pronounced in Commercial banks as opposed to the Deposit-taking SACCOs. This is attributed to the wide geographical spread of banks as opposed to regional concentration of Deposit-taking SACCOs. The quality of loan management staff influence the loan lending policy majorly through the experience of loaning staff, educational qualifications and exposure to technology.
Commercial banks have more loaning officers with higher academic qualifications and technological exposure than Deposit-taking SACCOs. However, Deposit-taking SACCOs have more experienced staff than Commercial banks due to Institutional mobility. The steady improvement of financial position over the years 2009, 2010 and 2011 is attributed to the quality of loan management staff. Though both Institutions have recorded improved financial positions, the margins of improvement are higher in Commercial banks as opposed to the Deposit-taking SACCOs (see Fig 4.11, Fig 4.12, Fig 4.13 and Fig 4.18 above). Competition in the credit market majorly affect the loan lending policy through the interest rates, expanded loan products, relaxed terms of borrowing and relationship lending. Banks are more competitive in their loan lending policy as opposed to Deposit-taking SACCOs (see Fig 4.7 above). Financial position affects the loan lending policy through the amount of funds available for credit. Loan lending policy improves with the improvement in the financial position. Financial position is significant in the year 2011 due to improvement of financial position of institutions (see Table 4.10 above). Monetary policy influences the loan lending policy mostly through the tools of Selective credit control, CBK base lending rate and Moral suasion.

5.4 Conclusions

A sound loan lending policy ensures that financial institutions operate optimally in their primary and secondary objectives of wealth maximization and Profitability while at the same time minimizing risk and improving credit accessibility for a sustainable economic growth. Thus, a clear understanding of the dynamics that determine the loan lending policy is useful to all stakeholders both within the financial institutions and the Macro-environment. This study concludes that the returns of a financial institution are largely dependent on how effective the loan lending policy captures its determinants in the credit market.
5.5 Recommendations

The first recommendation is that the loan management staff needs to be trained on the effects of macro-economic conditions on loan lending policy. This will ensure that their actions are in the best interest of both the Institution they work for and the aggregate economy.

The second recommendation is that despite their enormous experience, loan management staff in SACCOs should be further trained on use of emerging banking technologies. They should also be encouraged to go for higher studies to improve on their credit management skills as well as enhance their innovativeness.

Thirdly, monetary policy authority who has for long relied on base lending rate to curb inflation levels should explore other ways since financial institutions are using demand deposits more to meet their credit needs as opposed to borrowing from central bank. This recommendation is based on the low rating of CBK base lending rate as a determinant of loan lending policy.

Lastly, financial institutions can improve on their returns if they incorporate attractive interest rates, expanded loan products, relationship lending and relaxed terms of borrowing in their loan lending policy.

5.6 Suggestions for further study

This study was concerned with determinants of loan lending policy among commercial banks and Deposit-taking SACCOs in Nairobi County. A similar study can be conducted in another county to determine if the determinants are the same or different and their variances. Equally, a study comparing determinants of loan lending policy among Deposit-taking SACCOs and Non-banking financial Institutions is appropriate.
REFERENCES


Atieno, R (1994). "Institutional credit lending policies and the efficiency of Resource use among small-scale farmers in Kenya". Studienzur Landlichen Entwicklung, number 46, LIT Verlag Munster- Hamburg


Romer D, Romer CD (2000). Federal Reserve information and the behavior of Interest rates. America Economic Review 90(3); 429{457


Todd A. Gormley. (2007). Banking Competition in Developing Countries: Does Foreign Bank Entry Improve Credit Access?


APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

Dear respondent,

My name is Begi Ondari Evans from Kenyatta University. I am conducting an academic research titled ‘Determinants of loan lending policy: a comparative study between the commercial banks and deposit taking SACCOs in Nairobi.

I have randomly selected your institution from a group of commercial banks and deposit taking SACCOs. You are requested to give answers that reflect views applied by your institution and not those that you are knowledgeable about from other sources. You are equally requested to be as truthful as possible as the responses you provide will be used for academic purpose. Further, I assure you that the information obtained during this study will be treated with utmost confidentiality and your name will not be quoted in any document based on this study.

Yours Sincerely,

Begi, O. Evans
APPENDIX II: RESEARCH QUESTIONNAIRE

NAME OF

INSTITUTION............................................BRANCH...........................................

Section 1: Credit Manager/Loan Officer Profile

1. Gender [ ] Male [ ] Female
   (state)
3. Kindly indicate your age ________________________________
4. Education qualification

Section 2: Loan lending Policy

5. What is the number of loan management staff in your institution? ________________________________
6. Kindly indicate the capital base of your institution as of December 2011 in Ksh ________________________________
7. What form of security do you require for the loan issued?
8. Which credit methodology do you use?
9. For how long have you worked as a loan officer?
10. Which of these factors do you consider when approving a loan?
11. Indicate the maximum amount (Ksh) that can be approved for secured loans.
12. Kindly indicate the maximum amount (Ksh) that can be approved for unsecured borrowers
13. What do you do with loan defaulters?
    [4] Contest the case in a court of law
14. Do you require the loan applicant to have saved with you for a certain period?

If yes tick the minimum period

15. Use a tick (✓) to rate the LEVEL of risk arising from the following types of loans?

   **NATURE OF RISK**
   
<table>
<thead>
<tr>
<th>TYPE OF LOAN</th>
<th>Low</th>
<th>Neutral</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Estate</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial and Industrial</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agricultural</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Section 2: Determinants of loan lending policy**

16. For what purpose would the loan borrowed by most members likely to be?

17. Use a tick (✓) to rate the degree of influence of the following economic conditions on your loan lending policy

<table>
<thead>
<tr>
<th>ECONOMIC CONDITION</th>
<th>DEGREE OF INFLUENCE ON LENDING POLICY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Very high</td>
</tr>
<tr>
<td>Inflation levels</td>
<td></td>
</tr>
<tr>
<td>Exchange rate</td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td></td>
</tr>
<tr>
<td>Money Supply</td>
<td></td>
</tr>
<tr>
<td>Employment level</td>
<td></td>
</tr>
</tbody>
</table>

18. Which of the following factor(s) is determinant of your lending policy?
19. State the total amount of loans advanced to clients during the following years

2009: Ksh __________________________

2010: Ksh __________________________

2011: Ksh __________________________

20. Which of the following factors do you consider when adjusting interest rates?

21. Rate the following sectors from highest to lowest to reflect on your clients portfolio?

Highest { } Medium { } Lowest { } High { } Low { }

22. Who formulates the lending policy in your institution?

23. Which of the following steps do you take in coping with competition in the credit market?

24. Which of these factors do you consider when determining the amount of loan to issue?

25. How well are your loaning officers equipped with emerging credit management technologies?

26. What element is not considered when assessing a loan applicant?

27. Briefly comment on the role of effective lending policy in your institution.
### APPENDIX III: WORK PLAN

<table>
<thead>
<tr>
<th>DATE</th>
<th>DURATION</th>
<th>ACTIVITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>January, 2012</td>
<td>1 week</td>
<td>Write a concept paper</td>
</tr>
<tr>
<td>January, 2012</td>
<td>2 weeks</td>
<td>Waiting for approval of concept paper</td>
</tr>
<tr>
<td>February, 2012</td>
<td>2 weeks</td>
<td>Write a draft proposal</td>
</tr>
<tr>
<td>February, 2012</td>
<td>2 weeks</td>
<td>Present draft proposal to my supervisors</td>
</tr>
<tr>
<td>March, 2012</td>
<td>1 month</td>
<td>Make recommended corrections</td>
</tr>
<tr>
<td>April, 2012</td>
<td>2 weeks</td>
<td>Revise recommended Corrections.</td>
</tr>
<tr>
<td>May, 2012</td>
<td>2 weeks</td>
<td>Defend the proposal</td>
</tr>
<tr>
<td>May, 2012</td>
<td>2 weeks</td>
<td>Field data collection</td>
</tr>
<tr>
<td>June, 2012</td>
<td>2 weeks</td>
<td>Data compilation, analysis and presentation of final document.</td>
</tr>
</tbody>
</table>

### APPENDIX IV: BUDGET: RESEARCH PROPOSAL AND PROJECT

<table>
<thead>
<tr>
<th>ITEM</th>
<th>AMOUNT IN KSH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport and Travelling</td>
<td>20000</td>
</tr>
<tr>
<td>Stationery</td>
<td>15000</td>
</tr>
<tr>
<td>Internet services</td>
<td>20000</td>
</tr>
<tr>
<td>Communication Telephone</td>
<td>1000</td>
</tr>
<tr>
<td>Concept paper</td>
<td>200</td>
</tr>
<tr>
<td>Proposal</td>
<td>8000</td>
</tr>
<tr>
<td>Questionnaires</td>
<td>5000</td>
</tr>
<tr>
<td>Research assistants-2</td>
<td>20000</td>
</tr>
<tr>
<td>Compilation, analysis and binding</td>
<td>12000</td>
</tr>
<tr>
<td>6 Final copies @ Ksh 800</td>
<td>4800</td>
</tr>
<tr>
<td>TOTAL</td>
<td>106,000</td>
</tr>
</tbody>
</table>
APPENDIX V: LIST OF DEPOSIT TAKING SACCOS IN NAIROBI AS OF DECEMBER, 2011

1. Stima Sacco society Ltd
2. U.N Sacco society Ltd
3. Chai Sacco society Ltd
4. NACICO Sacco society Ltd
5. Mwito Sacco society Ltd
6. Comoco Sacco society Ltd
7. Mwalimu National Sacco society Ltd
8. Wanandege Sacco society Ltd
9. Kenya police staff Sacco society Ltd
10. Nation staff Sacco society Ltd
11. Orthodox Development Sacco society Ltd
12. Kingdom Sacco society Ltd
13. Afya Sacco society Ltd
14. Harambee cooperative Sacco society Ltd
15. Safaricom Sacco society Ltd
16. Asili Sacco society Ltd
17. Chuna Sacco society Ltd
18. Jamii Sacco society Ltd
19. Ukulima Sacco society Ltd
20. Kenpipe Sacco society Ltd
21. Waumini Sacco Society Ltd
22. Weyeta Sacco Society Ltd
23. Kiuu Sacco Society Ltd
24. Sheria Sacco Society Ltd
25. Nation Staff Sacco Ltd
26. Mwito Sacco Society Ltd
27. Jamii Sacco Society Ltd
28. Afya Sacco Society Ltd
29. Kiu Investments Sacco Ltd

Source: SASRA, December, 2012
APPENDIX VI: LIST OF COMMERCIAL BANKS IN NAIROBI

<table>
<thead>
<tr>
<th>Bank Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. African Banking Corporation Ltd</td>
</tr>
<tr>
<td>2. Bank of Africa Kenya</td>
</tr>
<tr>
<td>3. Bank of Baroda (k) Ltd</td>
</tr>
<tr>
<td>4. Bank of India</td>
</tr>
<tr>
<td>5. Barclays Bank of Kenya Ltd</td>
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<tr>
<td>6. CFC Stanbic Bank Ltd</td>
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<tr>
<td>7. Charterhouse Bank Ltd</td>
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<tr>
<td>8. Chase Bank(k) Ltd</td>
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<tr>
<td>9. Citibank N.A Kenya</td>
</tr>
<tr>
<td>10. Commercial Bank of Africa Ltd</td>
</tr>
<tr>
<td>11. Consolidated Bank of Kenya Ltd</td>
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<tr>
<td>12. Co-Operative Bank of Kenya Ltd</td>
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<tr>
<td>13. Credit Bank Ltd</td>
</tr>
<tr>
<td>15. Diamond Trust Bank Kenya Ltd</td>
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<tr>
<td>16. Dubai Bank Kenya Ltd</td>
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<tr>
<td>17. Ecobank Kenya Ltd</td>
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<tr>
<td>18. Equitorial Commercial Bank Ltd</td>
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<tr>
<td>19. Equity Bank Ltd</td>
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<tr>
<td>20. Family Bank Ltd</td>
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<tr>
<td>21. Fidelity Commercial Bank Ltd</td>
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<tr>
<td>22. Fina Bank Ltd</td>
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<td>23. First Community Bank Limited</td>
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</tbody>
</table>
24. Giro Commercial Bank Ltd
25. Guardian Bank Ltd
26. Gulf African Bank Ltd
27. Habib Bank A.G Zurich
28. Habib Bank Ltd
29. Imperial Bank Ltd
30. I & M Bank Ltd
31. Jamii Bora Bank Ltd
32. Kenya Commercial Bank Ltd
33. K-Rep Bank Ltd
34. Middle East Bank (k) Ltd
35. National Bank of Kenya
36. NIC Bank Ltd
37. Oriental Commercial Bank Ltd
38. Paramount Universal Bank Ltd
39. Prime Bank Ltd
40. Standard Chartered Bank Kenya Ltd
41. Trans-National Bank Ltd
42. UBA Kenya Bank Limited
43. Victoria Commercial Bank

Source: CBK Commercial Banks Directory, December, 2011