CREDIT INFORMATION AND ASSET QUALITY OF COMMERCIAL BANKS IN
NAKURU TOWN, KENYA

KAIGU KINYATI JOHN

D53/NKU/PT/32855/2015

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT FOR THE
AWARD OF THE DEGREE OF MASTERS IN BUSINESS ADMINISTRATION
(FINANCE OPTION) SCHOOL OF BUSINESS, KENYATTA UNIVERSITY.

APRIL, 2019
DECLARATION
This research project is my original work and has not been presented for a degree in any other University.

Signature: ........................................ Date: ........................................

Name:  John Kinyati Kaigu
Reg. No:  D53/NKU/PT/32855/2017

I confirm that this research project has been undertaken by the candidate under my supervision.
Signed……………………………  Date…………………………………………

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ACKNOWLEDGEMENT

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<td><strong>Asset Portfolio</strong></td>
<td>This refers to the different types of facilities that a commercial bank holds which include business loans, mortgages and salary loans among others.</td>
</tr>
<tr>
<td><strong>Asset quality</strong></td>
<td>This is the measure of how much of banks’ assets are at risk of default and how much the bank needs to provide for loses from future defaults in the profit and loss account.</td>
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<td><strong>Business Credit Rating</strong></td>
<td>This refers to a score given to the business and, therefore, rating it in order to determine whether a commercial bank can do business with it.</td>
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<tr>
<td><strong>Consumer credit status</strong></td>
<td>This refers to the full file information of a consumer in a credit report. The status can either be positive credit status or a negative credit status. Positive credit status means that the consumer has facilities that are performing and are up-to-date in terms of payments. Negative status means that the consumer has a non-performing facility and the facility shows weakness in terms of repayment.</td>
</tr>
<tr>
<td><strong>Consumer default information</strong></td>
<td>This refers to the default details contained in the credit report of a consumer, which includes the number of days the client has ever defaulted in payment, any missed payments, litigations, fraud or misrepresentations.</td>
</tr>
<tr>
<td><strong>Consumer identity verification</strong></td>
<td>This refers to the positive identification of the individual the commercial bank is dealing with, and the identification can take many forms from verifying documents such as National Identity Card, residence, age to colour or among others.</td>
</tr>
<tr>
<td><strong>Credit information</strong></td>
<td>This refers to the information looked at by lenders to ascertain whether an individual or company has the</td>
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ability to repay a loan.

**Credit portfolio**
This refers to the total amount of a bank’s lending to its customers.

**Credit reference bureaus**
This refers to the institution licensed by the central bank to collect, collate and share credit information about borrowers with commercial banks and other financial institutions.

**Downgrading**
This refers to a situation in which all the facilities of a customer are reduced to the category of the worst performing one.

**Information symmetry**
This refers to a situation where all the relevant information is known by all the parties involved in a transaction.

**Information asymmetry**
This refers to a situation where one party has more information than the other in a transaction.

**Non-performing Loans**
This refers to loans that are in default for more than 90 days. This means that the borrower has missed payments for more than 90 days of the principal sum and interest on the amounts advanced to him.

**Collateral**
This refers to a realizable asset that a borrower pledges to the lender to secure a loan from the lender.
<table>
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<th>Description</th>
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<td>Central Bank of Kenya</td>
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<td>CIS</td>
<td>Credit Information Sharing</td>
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<td>CRB</td>
<td>Credit reference bureau</td>
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<tr>
<td>ID</td>
<td>Identity Verification</td>
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<td>KCB</td>
<td>Kenya Commercial Bank</td>
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<td>Kenya Revenue Authority</td>
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<td>PAR</td>
<td>Portfolio At Risk</td>
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<td>PCR</td>
<td>Public Credit Registries</td>
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<td>SACCO</td>
<td>Savings and Credit Co-operative Societies</td>
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ABSTRACT

Commercial banks in Nakuru Town, Kenya are institutions that are in the business of providing credit facilities to their customers in order to generate interest income. On the other hand, bank customers in Nakuru town are increasingly aware of the fact that they can have multiple credit facilities from different banks. With cut-throat competition in the banking industry, and with the need for commercial banks in Nakuru Town to protect the quality of their asset portfolio, the banks have to design ways of improving their asset quality through sharing information that credit bureaus keep on their customers. The commercial banks in Nakuru town, have reported increases year on year in the level of non-performing loans. To improve on deteriorating asset quality, the banks have enlisted the services of credit bureaus in order to identify and then “lock out” serial defaulters. Therefore, the objective of the study is to establish the effect of credit information on the asset quality of commercial banks in Nakuru Town, Kenya. The specific objectives of the study are to determine the effect of collateral information on asset quality of commercial banks in Nakuru Town, Kenya, to determine the effect of business ratings information on the asset quality of commercial banks in Nakuru Town, Kenya, to determine the effect of customer identity verification information on the asset quality of commercial banks in Nakuru Town, Kenya and to establish the effect of customer default information details on asset quality of commercial banks. The literature review focused on bank risk management theory, loanable funds theory, Merton’s default risk model and asymmetric information theory. Primary data was collected using questionnaires in order to get accurate results. The study used regression analysis and the findings revealed that Business Ratings and Collateral Information significantly influences up to 59.4% and 17.6% positive variation on Asset quality respectively. This implies that for every one unit increase in Business Ratings information asset quality increases by 59.4 % while Collateral Information increases Asset quality increase by 17.6 %. It was also observed that Consumer Default Information significantly influences 36.3% positive variation on Asset quality. However, it was noted that Customer’s Credit Status Information significantly influences 32.5% negative variation on Asset quality. This implies that for every one unit increase in Customer’s Credit Status Information, Asset quality decreases by 32.5%. Similarly, Consumer Identity Verification Information influences negatively Asset quality by 9.3%. In this study, Business ratings information is the best predictor of asset quality. The linear regression equation derived from the analysis was of the form of $Y = 0.933 + 0.176X_1 + 0.594X_2 - 0.093X_3 - 0.325X_4 + 0.363X_5 + 0.86$ where $Y =$ Asset quality, 0.933 = constant term, $X_1 =$ Collateral Information, $X_2 =$ Business Ratings Information, $X_3 =$ Consumer Identity Verification Information, $X_4 =$ Customer’s Credit Status Information, $X_5 =$ Consumer Default Information, 0.86 = $e =$ Error term. It was concluded that Collateral information, business ratings information and consumer default information influences positively asset quality. However, consumer identity verification information and customer’s credit status information influences negatively on asset quality. The study recommends that
Collateral information should be controlled in order to promote positive loan performance by commercial banks as well as that business ratings information should be adequately provided in order to enhance quality assets of commercial banks. In addition, proper verification of clients should be promoted by commercial banks in order to control Non-Performing Loans as well as implementation of correct customer’s credit status information should be maintained in order to avert incidences of serial Non-Performing Loans. Finally holistic recording concerning consumer default should be developed in order to improve asset quality in commercial banks.
CHAPTER ONE

INTRODUCTION

1.1 Background to the study

The Kenya banking industry is a highly lucrative industry which has reported profits year on year despite the fact that losses have been reported by many other industries (Otieno, 2017). The Kenya banking industry is an old industry dating back to the pre-colonial period and today it has attracted forty-three commercial banks. The banks that initially started their operations were financing international trade along the Europe-South Africa–India axis. The banks widened their customer base by targeting the growing number of farming settlers and businessmen to whom they provided lending and deposit services. Lending started with the Indian money lenders who operated quasi banking services in the 18th century. The first recognizable bank in Kenya was the Jetha Litha Bankers of India followed by the National Bank of India (Central Bank of Kenya, 2017). The banks offered credit facilities to traders and farmers in the country. Therefore, lending is an old trade that determines the performance of commercial banks.

Globally, banks have faced various financial crises and the global financial crisis of 2008 was the most significant. During this time, banks in the USA offered mortgages to their clients at a value that was 100% or more of the value of the home (Oldani, Kirton, & Savona, 2013). “Banks engaged in trading profitable derivatives that they sold to investors. These mortgage-backed securities needed mortgages as collateral. The derivatives created an insatiable demand for more and more mortgages that the banking industry could not support and it lead to the collapse of the Lehman Brothers Bank in 2008” (Amadeo, 2017).

In Kenya, banks have faced financial crises in the past that have led to closure of some banks; and the most notable are the collapse of Imperial Bank and Chase Bank. There have been three
major bank crises in Kenya that have led to the collapse of twenty-four commercial banks between 1986 and 1998 (Kithinji and Waweru, 2007). The collapse of these banks was caused by huge non-performing loans, poor lending practices, non-adherence to policies, regulations and guidelines set out by the banks themselves and by the Central Bank of Kenya (CBK) (Waiguchu, Tiagha, & Mwaura, 1999). Most of the banks that collapsed were Kenyan owned and they were family businesses. The collapse of these banks triggered the development of better lending policies since all other banks started to improve the quality of their credit portfolios. As a result of this, Owuor (2013) noted that the provision of credit by commercial banks creates many challenges, particularly in the developing world, where the legal and policy framework is weak, where information is not always available, the ability and willingness of borrowers to repay their debts is not always present and where many borrowers are from poor backgrounds, many of whom have never before borrowed and cannot pledge collateral to guarantee repayment. Non-performing loans present challenges to commercial banks as they dilute the quality of a bank’s credit portfolio. There are also other challenges that the banking and financial sectors face.

The role of deposit taking and lending has, historically, predominantly been offered by commercial banks. However, in the recent past there has been intense competition from the non-banking sector, such as from the Telecommunication industry (Gude, 2012). As a result, banks have had to be proactive in protecting their traditional sources of income, which is mainly interest income, by embracing technology to reach out to as many customers as possible. To this end, banks have introduced mobile phone-based loan facilities (Rosingh, Seale, & Osborn, 2001) but this has led to further problems with the quality of their credit portfolios (Opiyo, 2016) as most of this lending is, of necessity, unsecured.
Lending by commercial banks was carried out in an environment of uncertainty where information asymmetry complicated the lending processes of commercial banks. Bank clients became increasingly aware that they could borrow funds from more than one financial institution without this being noticed. They did this in an attempt to defraud the commercial banks and this presented a huge moral hazard to commercial banks since the banks lent their money based on general market behavior as opposed to the intrinsic behaviors of the customer (Spadafora, 2009). The Kenyan Government, through the CBK after consulting with other stakeholders in the financial sector, therefore introduced the Banking (Credit Reference Bureau) Regulations 2008 to help track loan defaults in an attempt to improve the quality of credit portfolios held by commercial banks in Kenya. These regulations resulted in Credit Reference Bureaus (CRBs) providing commercial banks with information on all the loans taken out by their customers, whether with themselves or other banks. The introduction of such credit information sharing through the licensed CRBs brought sanity in commercial banks as it helped identify loan defaulters from good customers Wamahiu (2015).

1.1.1 Credit information
For the majority of Kenyans, credit is part and parcel of their life. It is hard to find anyone without any form of credit such as a car loan, mortgage, development loan, business loans, an overdraft and/or credit cards. Individuals usually have credit in more than one financial institution as they try to diversify their debt portfolio (Musto & Souleles, 2005). In this regard, there is the need to bring together credit information that an individual has in various institutions in one compressed report. Credit information refers to the information looked at by lenders to ascertain whether an individual or company has the ability to repay a loan. This is by obtaining
credit reports which contain information shared by the various financial institutions through the licensed CRBs Getenga (2010). CIS is the process that gives various financial institutions (banks, Savings and Credit Co-operative Societies (Saccos), insurance companies and credit card companies) information symmetry in respect of their customers through a process of sharing information on outstanding credit facilities that a particular client owes them (Bertola, Disney, & Grant, 2006).

Lenders obtain credit information from licensed CRBs, which collect information about clients. CRBs were introduced in Kenya in 2008 through the Banking (Credit Reference Bureau) Regulations 2008. According to the Banking Supervision Report 2016, the (CIS) mechanism was introduced in Kenya in July 2010. The report states that there are three licensed CRBs in Kenya: Creditinfo Credit Reference Bureau (CRB) Kenya; Credit Reference Bureau (CRB) Africa (trading as Transunion CRB); and Metropol Credit Reference Bureau.

The credit information reports produced by bureaus contain both negative and positive information about the credit history of an individual and include performing loans, performing loans with default history and non-performing loans. They also show the number of inquiries made, any write-off that has been required, early settlement of loans, proven cases of fraud and/or forgery and misappropriation of funds (Metropol CRB, 2018). Credit information is important both to lenders and borrowers as it enables lenders to make informed decisions regarding loan applications; helps in pricing credit facilities, helps identify risks; and reduces borrowing costs, thus improving revenue collection (Getenga, 2010). It enables customers with good credit scores to obtain credit facilities with more favorable terms.
CRBs obtain information from lenders. According to the CRB Regulation 2013, all banks are required to share credit information with all the licensed credit bureaus in Kenya on a monthly basis. The CRB Regulations requires that lenders share both positive and negative information about borrowers. Initially, banks only sent negative credit information to the CRBs, but the law requires that both positive and negative information be shared (Opiyo, 2016).

According to the CRB Regulations, 2013, the nature of information to be shared includes: the customer’s identity such as date of birth, national identity number, personal identification number, current address phone numbers and any other contact details; the customer’s credit status such as the nature and amounts of loans or advances and any other facilities granted, such as guarantors and letters of credit and status of credit applications; the type of security the lending institution has taken as collateral for the proposed loans or advances; the details of payment of credit facilities or default in payment by the customer, debt restructuring and actions taken by the institution to recover unpaid amounts including realization of securities, legal proceedings and related matters; for the loans and advances in default, the lending institution is required to furnish the number of days the facility is in arrears, whether it is a non-performing facility, a write off or whether there is a legal suit relating to a loan or advances.

The CRB then generates reports based on the information provided and then gives a score to the individual or entity through a process called credit rating. Through the credit rating, banks are able to appraise their clients and know the clients who have a good payment history from those that are loan defaulters. This process of credit referencing enables the CRBs to generate a report that contains information about the repayment history of the client, the length of credit history, the number of facilities that are still active, facilities that are fully settled, the number of inquiries
made in the last ninety days, the number and severity of missed payments and the ratio of total
debt versus balance still owed. Other information contained in the credit reports includes proven
records of fraud and forgeries, bankruptcies and liquidations, use of false securities and
misapplication of borrowed funds (Metropol CRB, 2018).

1.1.2 Asset Quality
Majority of bank customers are aware that they can access bank loans with or without security.
Salaried clients access bank loans and the security they provide is their salary (pay slip), micro
borrowers provide household chattels while Small and Medium Enterprises provide title deed or
logbook as collateral for loans. In order to reduce costs, many organizations are laying-off their
staff (Kamau, 2016). When staff are laid off and they owe bank loans, it becomes difficult for them to repay their loans, with a resulting adverse effect on the quality of loans held by
commercial banks.

Kubania (2017) Munyiri and Ngirachu (2018) and Mkawale (2018) observed that as a result of
the devolved system of government, there are many SMEs who are seeking contracts for works
with the county government. Many SMEs do not have the financial resources to carry out the
kind of work they are seeking with the county government and once entrepreneurs get the
contracts with the county government, they run to commercial banks for loans. Commercial
banks offer them loans with the anticipation that the county government will pay them promptly
but this is not always the case (Mkawale, 2018). When the contractors are not paid for work
done, they are unable to service their commercial bank loans and this has greatly contributed to
the deteriorating asset quality of commercial banks in the last five years (Kubania, 2017). Most
of the people who win government tenders always find themselves in similar situations. The
contractors obtain bank loans but the national government delays in payments of the services provided. This has the effect of deteriorating the credit portfolio of commercial banks as the contractors are unable to repay their loans in time.

Similarly, there are bank customers who have security such as title deeds and logbooks with which to secure loans from commercial banks. However, banks still shy away from lending to such clients because they still default. If such a client is in financial difficulty and cannot repay the loan, it takes a long period to sell the collateral since there is a long legal process involved in realizing the security pledged. In the long run it affects the quality of loans held by commercial banks (David Ngugi Ngaari v Kenya Commercial Bank Limited [2015] eKLR, 2013).

(Ochieng, 2014) observed that commercial banks were facing challenges in recovery of loans as courts sided with loan defaulters. In the case of Al-Jalal Enterprises Ltd v Gulf African Bank Ltd, Ochieng observed that the judge stopped the bank from recovering Sh220 million loan it had advanced to Al-Jalal Enterprises Ltd (Ochieng, 2014). This affected the asset quality held by the bank since it could not recover the principal nor interest from the loan.

Marella and Magloire (2016) observed that asset quality is a critical factor in determining the overall soundness of commercial banks. It affects the operational and functional aspects of a bank. In the banking sector, asset quality is the measure of the credit risk associated with the lending function of commercial banks. The core business of most commercial banks is lending where they lend depositors’ money to their clients. Banks act as agents to their customers by safe keeping of their money. The banks lend the same money and, therefore, there exists a risk of the depositors’ money not being paid back. Therefore, the major factor affecting asset quality is non-
payment of loans and advances (Akoth, 2016). Asset quality is an important factor that helps banks to determine how much of their assets are at risk of default and how much the banks need to provide in the profit and loss account. A high quality asset portfolio leads to better financial performance of the bank since the bank can benefit from interest income generated from loans (Akoth, 2016).

Asset quality is measured in terms of Portfolio at Risk (PAR). PAR is the total non-performing loans versus the gross loan book balance (Standard and Poor's Corporation, 2011). According to the Banking Sector Annual Report 2016, the CBK prudential guidelines require banks to classify their assets based on how risky each individual asset is. In this regard, assets are classified as normal, watch, substandard, doubtful and loss. The Banking Sector Annual Report 2016 noted that asset quality held by commercial banks deteriorated year on year. The issues that led to the deterioration of the banks’ asset quality were a challenging business environment as a result of delayed payments from public and private organizations as well as poor weather conditions that affected the agricultural sector. According to the Banking Sector Annual Report 2015, asset quality worsened as a result of stricter reclassification and loan provisioning as well as the effect of high interest rates that led to a downgrading of loan accounts by commercial banks. The Banking Sector Annual Report 2014 noted that the deterioration of asset quality resulted from the lag effects of high interest rates in 2012/2013 and from subdued economic activities. The Banking Sector Annual Report 2013 pointed out that asset quality was highly affected by high interest rates and slow economic growth during the period leading up to the 2013 general election and the immediately preceding those elections. In 2013, asset quality was further affected by the realignment of the National Government with County Governments as these
affected economic activities because payments to suppliers delayed and this impacted other drivers of the economy. The Banking Sector Annual Report 2012 identified high interest rates as the main cause of poor asset quality.

In the last five years to December 2016, the Banking Sector Annual Reports noted that the level of NPL that greatly affected the asset quality of commercial banks rose from KShs 60.7 billion in December 2012 to Ksh 214.3 billion in December 2016 which represented a whopping 71.6% increase in the level of NPL for the five years as shown in the table below.

Table 1.1: NPL Classification of Loans and Advances in Commercial Banks in Kenya

<table>
<thead>
<tr>
<th>NPL Classification of Loans and Advances for the Five Year Period from 2012 to 2016 (M)</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Substandard</td>
<td>16,370.00</td>
<td>24,841</td>
<td>27,672</td>
<td>45,159</td>
<td>55,180</td>
<td>70.33</td>
</tr>
<tr>
<td>Doubtful</td>
<td>29,798.00</td>
<td>37,525</td>
<td>54,519</td>
<td>77,193</td>
<td>124,873</td>
<td>76.14</td>
</tr>
<tr>
<td>Loss</td>
<td>14,575.00</td>
<td>18,945</td>
<td>25,571</td>
<td>24,980</td>
<td>34,214</td>
<td>57.40</td>
</tr>
<tr>
<td>Total NPL</td>
<td>60,743.00</td>
<td>81,311.00</td>
<td>107,762.00</td>
<td>147,332.00</td>
<td>214,267.00</td>
<td>71.65</td>
</tr>
</tbody>
</table>

(Source: CBK)

According to The Kenya Financial Sector Stability Report, (2016), “The banking sub-sector recorded elevated credit risks, reflected in deterioration of their asset quality following increased Non–Performing Loans (NPLs) and provisions”. The report indicates that asset quality in commercial banks had been deteriorating over the years and the report points at slow economic growth, poor weather conditions and insecurity, high interest rates, reclassification and provisioning of bad debts as the key contributors. The CBK prudential guidelines stipulate how
commercial banks should classify their assets and the percentage of provisioning for each category as shown in the table below.

Table 1.2: CBK Guidelines on Loan Classification and Provisioning

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of days in Arrears</th>
<th>Percentage (%) of provisioning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal</td>
<td>0-30</td>
<td>1</td>
</tr>
<tr>
<td>Watch</td>
<td>30-90</td>
<td>3</td>
</tr>
<tr>
<td>Substandard</td>
<td>90 - 180</td>
<td>20</td>
</tr>
<tr>
<td>Doubtful</td>
<td>180 - 360</td>
<td>100</td>
</tr>
<tr>
<td>Loss</td>
<td>360 and above</td>
<td>100</td>
</tr>
</tbody>
</table>

(Source: CBK Prudential Guidelines)

The CBK prudential guidelines state that normal loans are loans that show that the customer is financially stable and that there is no weakness in payment of the loan. It represents a good quality asset. “Watch” category are loans that are performing as per the contractual terms but they have weaknesses in terms of repayment which if not collected may dilute the asset quality of commercial banks. Loans in substandard category are those not being repaid as per the contractual agreement between the borrower and the bank and they show the borrower has serious difficulty in meeting the loan repayment terms. When the asset falls into this category, the financial institution may institute recovery measures such as selling of collateral pledged. Doubtful category refers to non-performing loans and to protect the asset quality, banks institute recovery of the asset. If the asset is not fully recovered, the banks are forced to provide 100% of the amount lost. Loss category are loans that have proved to be uncollectable in full and they cannot continue being recognized as bankable assets for the financial institution.

According to the consecutive Banking Sector Annual Report from 2012 to December 2016, there is a general increase in the level of NPLs as shown in the table below. The table also shows the
classification of assets from Normal to Loss and the total Portfolio at Risk both in absolute figures and as a percentage in the banking sector.

Table 1.3: Risk Classification of Loans and Advances (Ksh. M) in Kenyan Commercial Banks

<table>
<thead>
<tr>
<th>Year/Classification</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal</td>
<td>1,192,833.00</td>
<td>1,385,663</td>
<td>1,707,763</td>
<td>1,840,414</td>
<td>1,824,677</td>
</tr>
<tr>
<td>Watch</td>
<td>76,789.00</td>
<td>111,794</td>
<td>125,255</td>
<td>167,544</td>
<td>254,246</td>
</tr>
<tr>
<td>Substandard</td>
<td>16,370.00</td>
<td>24,841</td>
<td>27,672</td>
<td>45,159</td>
<td>55,180</td>
</tr>
<tr>
<td>Doubtful</td>
<td>29,798.00</td>
<td>37,525</td>
<td>54,519</td>
<td>77,193</td>
<td>124,873</td>
</tr>
<tr>
<td>Loss</td>
<td>14,575.00</td>
<td>18,945</td>
<td>25,571</td>
<td>24,980</td>
<td>34,214</td>
</tr>
<tr>
<td>Total Absolute NPL</td>
<td>60,743.00</td>
<td>81,311.00</td>
<td>107,762.00</td>
<td>147,332.00</td>
<td>214,267.00</td>
</tr>
<tr>
<td>Gross Loan Book</td>
<td>1,330,365.00</td>
<td>1,578,768.00</td>
<td>1,940,780.00</td>
<td>2,155,290.00</td>
<td>2,293,190.00</td>
</tr>
<tr>
<td>P.A.R %</td>
<td>4.57</td>
<td>5.15</td>
<td>5.55</td>
<td>6.84</td>
<td>9.34</td>
</tr>
</tbody>
</table>

(Source: CBK)

Loans that are classified as substandard, doubtful and loss are referred to as non-performing and they pose a major credit risk to the financial institution. This is because interest income from this class of assets is suspended; thus no income is generated from them. This leads to operational inefficiency which in turn affects the bank’s profitability and liquidity (Opiyo, 2016). Asset quality is extremely important since it touches on the core existence of commercial banks. The Basel Committee on Banking Supervision 1997 came up with twenty-five core principles of banking supervision. Of the twenty-five, seven touched on the asset quality of commercial banks and risk management in them (Basel Committee on Banking Supervision, 1997).
1.1.3 Credit information
Credit information is an important factor in determining the asset quality of commercial banks. It is a platform that allows the various lenders to share the credit information of their clients with the licensed bureaus. Once the information is shared, it allows the various players in the lending market to have easy access to the credit information of their clients. According to Kallberg and Udell (2003), historical information exhibits great predictive power on the likely behavior of a borrower. The default predictive power is enhanced when all lenders enrich the credit registries with their debtors’ information (Powell, 2004).

According to Pagano and Jappelli (2010) credit information sharing (CIS) helps commercial banks by improving their knowledge of the characteristics of the loan applicant and easing the problem of adverse selection. CIS helps borrowers by cutting insolvent ones off from credit and helping eliminate or reduce borrowers’ incentives to become “over-indebted” by drawing credit simultaneously from many banks without any of them realizing this. All this helps to improve the asset quality of commercial banks.

On the other hand, asset quality determines the profitability of commercial banks. A bank that maintains a high quality asset portfolio is likely to be stronger and more profitable than a bank that has a huge portfolio of non-performing loans.

Banks are required by the CBK to furnish licensed credit reference bureaus with both positive and negative information about the credit history of their clients. Through this process of credit information sharing, banks are able to control the level of non-performing loans and in the process they improve their asset quality. This is because banks only lend to consumers who have
a positive score in a credit bureau report. This means that, when a consumer is negatively listed, he is required, first of all, to repay the debt that has been listed before being advanced with another facility. This helps in improving the asset quality of the commercial banks (CBK prudential guidelines, 2016).

Commercial banks also use credit reference reports to determine the amount of money they can lend to their clients. The report has all the outstanding facilities the consumer has and therefore, banks will be in a position to use the report to determine the amount of money they can lend to the client without overburdening him. This ensures that the client has sufficient inflow of cash to service all the loans comfortably and, therefore, it improves the quality of assets held by commercial banks. The report also helps banks to see the repayment history of the client, the number of days the client’s loan has ever been in arrears and the number of missed payments. This helps the bank to appraise the client better by knowing why the client’s loans were in arrears Getenga (2010).

1.1.4 Commercial Banks in Kenya
A commercial bank is an institution that is licensed to offer financial services to the public such as lending, deposit taking and financial investment services among other services. The Kenyan Banking sector is regulated by the Companies Act, the Banking Act and the Central Bank of Kenya (CBK) Act. The CBK is the regulator of commercial banks in Kenya through the issue of prudential guidelines from time to time. The CBK formulates and implements fiscal and monetary policy and it is the lender of last resort.

According to the Banking Sector Annual Report, 2016, the Kenyan banking sector comprised the CBK as the regulatory authority and forty-three banking institutions. Of the forty-three, forty-
two were commercial banks and one was a mortgage finance company. There were eight representative offices of foreign banks, thirteen microfinance banks, three credit reference bureaus, seventeen money remittance providers and seventy-seven foreign exchange bureaus (The Banking Sector Annual Report, 2016). The Kenyan government has the majority stake in three commercial banks while the remaining forty were privately owned. Twenty five out of the forty privately owned banks were owned locally while the remaining fifteen were foreign owned. Of the twenty-five locally owned financial institutions, twenty four were commercial banks while one was a mortgage finance company. Of the fifteen foreign owned financial institutions, all were commercial banks. Eleven of them were local subsidiaries of foreign banks while four were branches of foreign banks. The three credit reference bureaus, the microfinance institutions and foreign exchange bureaus were privately owned (The Banking Sector Annual Report, 2016).

Of the forty-three commercial banks, Imperial Bank and Chase Bank are under receivership. Charterhouse Bank Limited is under statutory management while Fidelity Commercial Bank is being acquired by another bank. The three local banks owned by the Government are Consolidated Bank, Development Bank and National Bank of Kenya (Waiguchu, Tiagha, & Mwaura, 1999).

Commercial banks in Kenya are classified into three peer groups using a weighted composite index. This index is comprised of the banks’ net assets, customer deposits, capital and reserves, number of deposit accounts and number of loan accounts. Large banks have a composite index of five percent and above while medium banks have a weighted composite index of between one and five percent. Small banks have a weighted index of less than one percent. According to the
Banking Supervision Report 2016, there were eight large banks which controlled 65%, eleven medium banks with a market share of 26% and twenty small banks with a market share of 9%.

Commercial banks in Kenya have embraced the use of the agency banking model. Agency banking is where banks contract business people to offer banking services similar to the services offered in the physical banking setup. The services offered at the agents’ locations include cash deposit and withdrawal and account opening. According to the Banking Sector Annual Report 2016, commercial banks in Kenya had contracted fifty-three thousand, eight hundred and thirty three agents which were spread across the country. Equity Bank of Kenya limited had contracted the highest number of agents followed by Kenya Commercial Bank and Cooperative Bank of Kenya Limited respectively.

Commercial Banks in Kenya have ventured into foreign countries where they have opened subsidiary banks. This is to enjoy the economies of larger scale operations and to tap into the new markets with the aim of increasing profits. Kenyan commercial banks have subsidiaries in the East African Region, the Democratic Republic of Congo and in South Sudan.

Commercial banks have also seen tremendous growth in the use of technology. They have partnered with the telecommunications industry to provide their clients with faster services such as mobile banking services. Key among them is the M-Shwari service which is owned by Commercial Bank of Africa but hosted by Safaricom through M-Pesa. M-Shwari is a paperless banking service where customers are able to access loans through their mobile phones. Equity Bank is leading in the technology front through its innovative Equitel products. It has developed a service through which customers can obtain virtually all services through their mobile phones.
In Kenya, commercial banks are required to have core banking capital of Ksh. 5 Billion by 2019. This will give banks greater ability to absorb losses and will provided depositors with greater security. This move is also essential as it will make the sector more competitive in the region and in the world at large.

1.1.5 Asset Quality of Commercial Banks in Nakuru Town, Kenya
Nakuru town has a total of twenty five commercial banks. This represents more than half of all the commercial banks in the country and thus Nakuru town becomes a good representative of the entire country. Nakuru town is a good choice for the study since the asset quality has continued to deteriorate year on year as shown in the various credit reports generated from credit managers.

Table 1.4 Asset Quality Status Trend of Commercial Banks in Nakuru Town

<table>
<thead>
<tr>
<th>Year/NPL</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Absolute NPL</td>
<td>874,538,100</td>
<td>1,206,178,880</td>
<td>2,260,008,780</td>
<td>5,115,380,260</td>
<td>5,968,615,640</td>
</tr>
</tbody>
</table>

Source: Credit Managers

1.2 Statement of the problem
One of the main functions of commercial banks in Kenya is lending and commercial banks in Nakuru town usually pride themselves in having sound credit lending policies and regulations and strong corporate governance structures. However, the commercial banks in Nakuru town lend recklessly without following the due process of appraisal they have put in place. When the policies and procedures in lending are not followed, then it erodes the asset quality of commercial banks and it may lead to collapse of the banks (Waiguchu, Tiagha, & Mwaura, 1999).
The problem of poor asset quality has been an enormous challenge to commercial banks for ages and the problem seems to persist year on year as evidenced from the various Banking Annual Reports. In the last five years to December 2016, the total NPL in commercial banks rose from KShs 60.7 billion in December 2012 to Ksh 214.3 billion in December 2016 which represented a 71.6% increase in the level of NPL for the five years.

In the last five years ending 2016, there was an increase of Ksh. 5,094,077,540.00 in non-performing loans which represented 85% increase in the level of non performing loans in Nakuru town alone. This represented a 4% contribution of nonperforming loans to the entire commercial banks in the country. This presented a good problem for the study to determine the causes of the deteriorating asset quality in Nakuru town.

Commercial banks usually go extra miles to control the problem of NPLs in their books, including legal mechanisms, regulatory mechanisms and using the services of debt collectors. Thomas & Vyas (2016) studied the various loan recovery mechanisms employed by Indian banks and their study was occasioned by the deteriorating asset quality of commercial banks in the Indian Banking Sector. Other scholars, Wairimu (2013), Odiwuor (2016), Nzoka (2014) and Nganga (2015) also delved into the issue of credit information with the aim of explaining the thorny issue of asset quality in commercial banks and their objective of the study, mainly focused on the aspects of liquidity, banks financial performance, management efficiency, capital adequacy and banks’ earnings. This study aimed to enrich the foregoing studies by looking on the information pertaining security provided by borrowers, consumer identity verification, customer default details and business ratings with a view of researching on the effects of credit information sharing on asset quality of commercial banks in Nakuru Town, Kenya.
The quality of the credit portfolio held by commercial banks is of great importance since it generates interest income; which in most cases contributes a bigger chunk of commercial banks net income. Poor asset quality in the financial sector is a cause for alarm to the investors who expect a return on their investment. Shareholders expect dividend payments at the end of the year, the management expects bonuses and pay increases, the government looks upon the commercial banks to perform well so that they can pay taxes and the general public wants to do business with a company that is performing well. CIS comes in to help commercial bank ease the problem of poor asset quality through sharing information they have about potential borrowers

1.3 Objectives of the Study
The main objective of the study was to establish the effect of credit information on the asset quality of commercial banks in Nakuru Town, Kenya

1.3.1 Specific Objectives
The specific objectives of the study were;

i) To determine the effect of collateral information on asset quality of commercial banks in Nakuru Town, Kenya.

ii) To determine the effect of business ratings information on the asset quality of commercial banks in Nakuru Town, Kenya.

iii) To determine the effect of consumer identity verification information on the asset quality of commercial banks in Nakuru Town, Kenya.

iv) To determine the effect of customers credit status information on asset quality of commercial banks in Nakuru Town, Kenya.
v) To establish the effect of consumer default information details on asset quality of commercial banks in Nakuru Town, Kenya.

1.4 Research Questions

i) How does collateral information affect the asset quality of commercial banks Nakuru Town, Kenya?

ii) How does business rating information affect the asset quality of commercial banks Nakuru Town, Kenya?

iii) How does consumer identity verification information affect the asset quality of commercial banks Nakuru Town, Kenya?

iv) How does customer’s credit status information affect the asset quality of commercial banks Nakuru Town, Kenya?

v) How do consumer default information details affect the asset quality of commercial banks Nakuru Town, Kenya?

1.5 Significance of the study

Commercial banks operate in a highly regulated environment by the CBK, the government, the general public and the media since commercial banks are public entities. Therefore, banks have to do the right thing first time. In line with this study, it is the goal of every commercial bank to maintain a high quality asset portfolio which guarantees a high income that translates to higher taxes paid to the government and a higher return to the shareholders.

The study will be significant since it will explain the causes of poor asset quality in Nakuru town and provide necessary recommendations for remedial actions that should be taken. The study
will also help the management of commercial banks in Nakuru town to come up with better lending policies to help improve the asset quality of commercial banks in Nakuru town. Information sharing between commercial banks in Nakuru town will help commercial banks come up with better rates for clients with strong credit scores and at the same time charge higher rates for high risk clients. The report is significant to the consumers of loan products in Nakuru town who will know the effects on asset quality of nonpayment of loans. The consumers in Nakuru town will be psychologically aware that if they do not honour their debts with commercial banks in Nakuru town they will be listed with the CRB and this will help in improving the asset quality of commercial banks in Nakuru. The study will also be significant because it will provide policy guideline to the CBK on how well to manage the credit reference bureaus and their agents and the information shared by the commercial banks to the credit reference bureaus.

1.6 Scope of the study
The study aimed at establishing the effect of credit information on asset quality of commercial banks in Nakuru Town, Kenya. Nakuru town is a Cosmopolitan town and it is the fourth largest town after Nairobi, Mombasa and Kisumu. Nakuru town was a good choice since it provided enough data which would be a representative of the entire country. Nakuru town commercial banks contribute upto 5% to the deteriorating asset quality of all commercial banks in Kenya. It is the headquarters of Nakuru County and an administrative town being headquarters of Provincial Administration, it has many industries and a large population, and it is an agricultural town and a tourist attraction center. Of the forty-three commercial banks, there are twenty eight bank branches in Nakuru town and these provided data which was a good representation of the entire country. The existence of the mentioned industries and the bank branches means that
Nakuru town contributes to a great extent the deteriorating asset quality of commercial banks in Kenya. This is because farmers obtain commercial bank loans to carry out farming, when farming is affected by poor weather conditions such as drought or excessive rains, farmers do not get enough produce to sell and repay their loans. Similarly, when tourism is affected by negative publicity such as crashes, Nakuru town is hit hard. Organizations and people who rely on tourism are affected and they cannot pay commercial bank loans.

1.7 Limitations of the study
The researcher was fully determined to carry on with the research to a logical conclusion despite the many challenges in the course of the research. One major challenge was that not all the questionnaires that were given out were filled in. The respondents did not have time to fill in the questionnaire and as such the researcher had to carry on with the research using the filled in questionnaires which accounted for 90% of all the questionnaires distributed. The other limitation was that some of the respondents misplaced the questionnaires and the researcher had to print them again.

1.8. Organization of the study
Chapter one of the project delves into the background of the study, looked into the statement of the problem, objectives of the study, research questions, and significance of the study, the area covered when conducting the research and the limitations encountered in the course of the study. Chapter two of the study presents the literature review on credit information and asset quality of commercial banks in Nakuru Town, Kenya. Recent studies carried out were reviewed under empirical review and a summary of the reviews was provided. A conceptual framework was drawn which presented the various variables under consideration in one glance.
Chapter three of the study provides the research methodology, research design, target population, data analysis, model specification and the ethical considerations during the process of carrying out the research.

Chapter four of the study delves into data analysis and presentation, response rate, descriptive statistics and analysis and inferential statistical analysis as well as correlation analysis.

Chapter five presents the summary, conclusions and recommendations of the study as well as suggestion for further study.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
The chapter focused on the literature and research work carried out on the research topic. The literature review looks into the theories already advanced in regard to credit information and asset quality, the literature review also looks into the empirical studies and identifies the gaps and finally gives conclusion about the literature review as well as an original contribution to the field of credit information and asset quality.

2.2. Theoretical Review

2.2.1 Asymmetric information theory
Asymmetric information theory was advanced by three economists, George Akerlof (1970), Michael Spence (1973) and Joseph Stiglitz (1981) who won the Nobel Prize in economics in 2001 for their contribution in the field of asymmetric information. Asymmetric information refers to a situation in which one party to a financial transaction has perfect information about the transaction while the other party has less than perfect information, leading to moral hazard and adverse selection problems.

Akerlof (1970) developed the theory of asymmetric information in his paper, "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism." Akerlof related quality against uncertainty in the market and found out that car buyers seek a complete set of information from sellers. The buyer of a car can only know its quality after purchasing the car and staying with it for some time. This gave the seller the incentive to sell goods of less than the average market quality.
Michael Spence (1973) advanced the debate through a paper on Job Market Signalling, whereby different individuals were able and willing to provide any information required by another party and in the process help in resolving the problem of information asymmetry.

Stiglitz (1981) came up with the idea of screening, whereby the party with no or little information is in a position to induce the other party to give more information. The theory of asymmetric information states that it is very difficult to differentiate between good borrowers from defaulters and this gives rise to moral hazard and adverse selection problems.

The theory of asymmetric information is important to the current study since it will help commercial banks avoid the problems developed by moral hazard and at the same time help to select good borrowers from bad borrowers and in the process help in improving the asset quality of commercial banks. The theory, through screening, will ensure that identity verification of each client is guaranteed. Borrowers are required to provide their identification details, residence, biometrics, photos, signatures and postal address. The theory also helps to cure the moral hazard and adverse selection by ensuring that clients, who in most cases have perfect information, provide collateral/security for the facilities advanced. This covers the commercial banks since in case of default; they have a fallback position in term of the security provided.

2.2. Merton’s Default Risk Model
The model was initiated by Robert C. Merton in 1974 and it is a model that shows that the probability of default by companies, mortgage firms or borrowers can be shown through the appraisal and valuation of companies in order to rate them. The model was based on some simplifying assumptions about the structure of the typical firm’s finances. The event of default was determined by the market value of the firm’s assets (collateral) in conjunction with the
liability structure of the firm. When the value of the assets falls below the required threshold, referred to as the default point, the firm is considered to be in default. A critical assumption is that default can only take place at the maturity of the debt when the repayment is due.

The model is linked to the current study through business rating variable. The model is relevant since it will help security analysts and officers who attempt to determine an organization’s credit default risk point. Credit analyst rate business through appraisals and valuation by looking at the financial statements to determine the strength of the business to repay loans once advanced. This determines the market value and liability structure of the firm and if the business rating falls below the default point, the firm is considered risky to lend to.

2.2.3. Loanable Funds Theory
The Loanable Funds Theory was postulated by Wicksell and Robertson (1980) and it was an extension of the classical investment theory developed by Keynes. Wicksell and Robertson (1980) stated that the loanable funds theory is a theory that is based on market interest rates. They argued that the interest rate that was charged by commercial banks was determined by the supply and demand for loanable funds. They argued that the demand for commercial bank loans reflected the plans borrowers had for funds and the supply for loanable funds reflected the lending plans the lenders had. They observed that the quantity demanded of loanable funds was inversely related to the interest rate while the quantity supplied of loanable funds is directly related to the interest rate (Burton & Brown, 2014). The loanable funds model determines interest rates based on the supply and demand in the bond market. In the loanable funds approach, the equilibrium interest rate is determined by the quantity (supply) of loanable funds, which consist of savings, and the quantity demanded of loanable funds, that comprise
investment and the government deficit financed by local bonds (Khandker & Khandker, 2008). The theory is based on interest rates and it helps commercial banks in pricing their loans.

The theory connects to the current study through customers’ credit status. A customer with a positive credit status may enjoy low interest rates charged by the commercial bank while a customer with a negative credit status will pay more to compensate for his riskiness. The supply of loanable funds reflects the lending plans the commercial bank has. Commercial bank lent’s out depositors’ money and their plan is to lend and earn interest on the loans advanced. Therefore, the credit status of a borrower will largely inform the decision the commercial bank takes.

2.2.4. Bank Risk Management Theory
Bank risk management theory was advanced by Pyle (1997) and the scholar showed the importance of bank credit risk management. Pyle (1997) defined risk management as “the process where managers identify key risks, obtain consistent, understandable, operational risk measures, chooses which risks to reduce and which risks to increase and by what means and establishing procedures to monitor the resulting risk position”.

The theory argues that commercial banks can reduce the level of nonperforming loans by the use of credit scoring through CIS, ratings and through credit committees which are meant to assess the overall credit worthiness of counter parties. Pyle noted that the risks that commercial banks face are mainly market risk, operational risk, performance risk and credit risk. Pyle observed that credit risk occurs where there are changes in the value of the portfolio held by commercial banks due to the failure of one party usually the borrower to meet their part of the contractual obligations. Otwori (2013) observed that the main source of credit risk includes inappropriate
credit policies, poor management structures, lack of post disbursement follow-ups and poor credit assessments.

The theory connects to the current study by showing how commercial banks can mitigate against defaulters by ensuring that they check key variables such as customers’ credit status information and consumer default information. This can be done using the laid down procedures such as pulling the credit reports and studying the credit scores of the borrower. The credit report helps lenders manage risks in a number of ways. When a customers’ report has many non-performing facilities, then the commercial bank may decide to avoid taking the risk of lending or it may lend at high interest rate.

The theory also advocates for other mechanisms of managing the bank risk such as following up on the policies and procedures laid down and by ensuring that loans are approved by well constituted committees and approved by the management of the commercial bank. The bank risk management theory ensures that banks do a cross reference with bureaus to ensure that they do not lend to organizations that have defaulted and in the process they improve their asset quality.

2.3. Empirical review

2.3.1. Collateral Information
Commercial banks are in the business of lending and one of the requirements while lending is collateral. Collateral is an asset that the borrower issues the lender as a show of commitment to honor debt obligations. In case the borrower defaults in payments, the lender can sell the asset to realize money lent out. There are a number of studies that have been carried out in regard to the security held by commercial banks and their contribution to asset quality. Cowling and Sugden (2014) examined the role of interest rates and security in the context of small firms in the UK.
and commercial banks’ lending relationship and they questioned whether banks change their lending conditions on the basis of specific collateral information and the kind of borrowing being undertaken. They found out that the imposition of full collateralization reduces the role of interest rates, although there is evidence of banks exercising their market power in more costly lending of the smallest of firms. The study also recorded that commercial banks required borrowers to provide collateral that was two times the value of the loan.

Menkhoff, Neuberger and Suwanaporn (2004) carried out a study on the determinants of collateral in emerging markets in Thailand and they used a sample of 9 commercial banks in Thailand. The variables they looked at were loan contracts variable, company variable, relationship variables and bank size variable. They found out that most loans are collateralized and that collateral is very important in mature markets and the importance even increases in the less developed markets. They also observed that collateral leads to the growth of the credit market and makes lending a viable business for commercial banks since it improved the asset quality of the banks. They also observed that borrowers who are viewed as risky by the banks were more likely required to pledge a security than less risky customers. They also observed that the amount of loan requested by a borrower was directly proportional to the level of security the commercial bank demanded. The observation is that Thai commercial banks used collateral as a tool to reduce credit risk rather than for information asymmetry.

Stiglitz and Weiss (2001) in their study on Collateral in credit rationing in markets with imperfect information in the US markets, analyzed the adverse selection and incentive effects in the loan markets and their study was based on two broad assumptions that borrowers are subject to limited liability and that lenders cannot distinguish borrowers of different risks. They observed
that, if borrowers are risk neutral and subject to limited liability, then a lender may not be willing to increase the interest rate on the loans to eliminate excess demand. Where the borrowers are risk averse they may also not be able to raise collateral required in order to eliminate excess demand. The analysis also pointed out that the lender may not use collateral as a rationing tool even where the borrowers are risk neutral because an increase in collateral requirements has the effect of reducing the lenders’ expected return on the loans.

Nwuba, Egwuatu and Salawu (2013) investigated the application of real estate as loan collateral in Nigeria’s banking sector. They used questionnaires to obtain responses from the commercial banks. The study concluded that the majority of commercial banks in Nigeria used real estate as the main collateral instrument for any credit facility advanced. The problem with the use of real estate as collateral for loans is that it requires a lot of documentation and leads to foreclosure problems. They observed that the clients’ title to the security pledged, the nature and quality of the title as well as the value of the real estate are important considerations when banks obtain real estate as loan collateral. Therefore, real estate, and especially property values, land titles and records are significant factors in contemporary Nigeria’s bank lending and with the greater emphasis on the security of credit, real estate is key in lending.

Ochola (2013) carried out research that concentrated on the determinants of business collaterals and loan portfolio quality of commercial banks’ branches in Kisumu. Ochola used descriptive cross-sectional surveys in the study and used a sample size of 30 commercial banks. The researcher concluded that the legal environment, microeconomic uncertainty, bank ownership and loan type are the main determinants of business collateral and loan portfolio quality.
2.3.2. Business ratings information

Asset quality is a key parameter in commercial banks. Commercial banks want to lend to individuals and businesses that have a high credit rating. This is to help reduce the rate of non-payment of loans and ensure full payment of loans plus interest.

According to Sylla (2001), the development of business credit ratings can be traced in the 19th Century in the US at the capital markets where they primarily dealt with sovereign debt issues. Sylla observed that the rise of credit ratings was catalyzed by the development of a large US corporate bond market where the bond issues and issuers had grown to a point where the quality of borrowers could not be adequately certified by the investment bankers alone. Sylla observed that the globalization of credit rating took place in the early 1970s as a result of growth in demand for credit. Negrila (2009) observed that a study done by Hickman (1958) and Atkinson (1967) concluded that higher credit ratings were associated with lower levels of default rates and high returns on corporate bonds a phenomenon that could only be realized when credit rating captured all the meaningful economic information about individuals and businesses.

Reinhart, Levich and Majoni (2012) issued a report entitled: Ratings, Rating Agencies and the Global Financial System: Summary and policy implications in the US financial system; and they concluded that credit rating is a form of short-hand that uses one-dimensional measure to capture the various risks that a commercial bank faces once it lends funds to an individual. They criticized rating of businesses given its limited ability to predict major economic changes and financial crises that may occur. They also advocated internal business rating mechanisms for commercial banks since the banks were in a position to understand their customers better.
Nakamura (2010) did a research on credit ratings and banks’ monitoring ability and observed the behavior of two Swedish commercial banks. For the two banks, the researcher concluded that commercial banks’ credit ratings derived from monitoring the behavior of borrowers comprised important private information. The tests they carried out added additional information that publicly available information from reference bureaus was not able to capture and was not, therefore, taken into account in determining the bank ratings they published. The credit bureau ratings not only predict future movements in the bank ratings but also improve forecasts of bankruptcy and loan default. Nakamura (2010) observed that bank officers put more emphasis on private information leading to overconfidence when carrying out risk analysis. The conclusion was that asset quality could only be improved if the bank efficiently used both the internal bank credit ratings and the public credit reference bureau ratings.

A study carried out by Cole (2014) in Chicago on small businesses sought to identify the effects of credit scores and credit markets on the decision made by commercial banks on whether to approve or deny a credit application based on their ratings. The study used descriptive statistics and observable patterns to come up with an important conclusion that there is no evidence that credit scores reduce the importance of firm-lender relationships. The study also found out that credit markets disproportionately deny credit to minority-owned firms when they need and apply for additional credit.

Rojas-Suarez (2010) carried out research on the value of bank credit ratings in emerging markets and found out that rating agencies rely more on macroeconomic variables than on bank specific financial ratios in determining the suitability for lending. The researcher also pointed out that the banking problems could not be solved only by the credit rating agencies but also by the use of
alternative indicators that showed the riskiness of individual banks and proposed the alternative indicators as the interest rate paid on deposits and the interest rate spread.

2.3.3. **Consumer identity verification information.**
According to the CBK Prudential guidelines, 2016, the consumer identity verification procedures are meant to ensure that the commercial bank is dealing with a person that actually exists. Consumer identity should identify those people who are authorized to transact on behalf of others or those who transact for themselves. Consumer identity verification will include a query to the credit reference bureaus to get to know the credit history of the client.

According to Jappelli and Pagano (2010), in their research paper on the effects of credit information sharing, they argued that consumer identity verification involved sharing of information such as demographics, age, physical address and occupation. It also included verification of the financial position of the borrowers. They observed that, the more the information the bank has about the identity of its customers, the more it was likely to identify high quality borrowers, and leave out low quality borrowers. They also observed that high quality customers would be less worried to be reported as defaulters since they believed that their reputation would sustain them. They concluded that proper customer verification and background checks were directly proportional to the level of performing facilities held by commercial banks.

Suparna (2016), in her study entitled Smarter Banking: Blockchain technology in the Indian banking system, observed that by the use of blockchain technology, Indian commercial banks were in a better position to identify and verify loan applicants. The technology was a centralized system of mining the identity of all applications and it helped commercial banks in India to
enhance transparency and trust in the management of asset quality. The technology was used to address the thorny issue of non-performing accounts in the Indian banking sector.

Mwambu (2013) carried out research on the factors that influence electronic fraud in commercial banks in Kenya. The study found out that a lack of standardized identity verification and authentication tools by commercial banks largely contributed to fraud in commercial banks in Kenya. This led to individuals accessing credit facilities using other customer details and this had the effect of increasing the total NPL held by commercial banks.

2.4.4. Customers credit status information.
Commercial banks advance loans to their clients in the hope that the borrowers will repay the principal amount and interest as contained in the contractual agreement between the bank and the client. The CRB Regulations require that lenders share both positive and negative information about the individual. Initially, banks would only send negative credit information to the bureaus, but the law requires that both positive and negative information to be shared (Opiyo, 2016). This means that commercial banks are required to share customer details pertaining to the loans and this includes the number of loans the customer has, days in arrears, whether it is a non-performing facility, write-off or whether there is a legal suit against the commercial bank in regard to a loan.

According to Dinh and Kleimeier (2007) in their research on the credit scoring model for Vietnam’s retail banking market the decision by commercial banks to grant a loan does not depend solely on the collateral provided or the borrower’s income but rather it depends on the qualitative analysis of the borrower. The qualitative analysis includes social status, reputation and personality of the borrower. Banks use the credit scoring model to quantitatively analyze a
borrower’s situation and in the process of scoring they come up with a customer credit status that allows a bank to make an informed decision on whether to lend or not.

Huia, Lia and Zongfanga (2013) examined the model and empirical research of application scoring based on data mining methods in commercial banks in China. They observed that personal credit scoring can be divided into three categories in order to come up with a customer credit status that would be useful in managing the asset quality of commercial banks. They classified them as credit scoring bureau, application scoring and behavioural scoring. They concluded that the credit status of a customer can be derived from demographic characteristics, credit history, behaviour records and trading records.

Triki and Gajigo (2012) investigated the effects of public and private credit registries on firms’ access to finance as well as the effect of public credit registries’ design on the severity of the financing constraint. They took data from 42 African countries and their results showed that access to finance is on average higher in countries with private credit bureaus (PCBs) compared to countries with public credit registries (PCRs) or countries with neither institution. They also observed that there is a significant heterogeneity in access to finance among countries with PCRs as well as the design of these institutions. They found out that countries with PCRs that collect positive and negative information on borrowers’ credit histories are associated with firms reporting smaller obstacles in access to finance.

2.3.5. Consumer default information details
Thuo (2015) carried out research on the effects of credit information sharing on the financial performance of commercial banks in Kenya with the aim of sharing debtors’ credit information. The research design used by the researcher was descriptive research and used a population of
forty-three commercial banks in Kenya. The main source of data was secondary data and used the Statistical Package for Social Sciences (SPSS) to run the regression analysis. The study concluded that consumer default information enhances banks’ performance as it helps reduce the level of non-performing loans, thus improving banks’ profitability. The study also found that once the consumer default details are shared, it acts as a caution to would-be defaulters and thus it enhanced the repayment culture.

Kaaya and Pastory (2013) carried out a study on the relationship between credit risk and commercial banks’ performance in Tanzania. The study used regression analysis to develop the indicators of credit risk and bank performance. The researchers observed that in cases where commercial banks have a high risk/high return asset portfolio, the bank ought to have a substantial amount of consumer default information details pertaining to the present and past default status and the banks should enhance their credit lending policies and adoption of sound management policies. The study concluded that commercial banks’ performance tends to reduce when the level of credit risk accommodated by commercial banks is high. The researchers argued that the higher the credit risk for the bank the higher the return due to the bank’s ability to increase its portfolio and at the same time the bank should be in a position to balance and foresee the return.

Pagano and Jappelli (2010) researched the roles and effects of credit information sharing and the study concluded that consumer default details are essential in the broader credit market and are essential in reducing the overall default in commercial banks. This is because the default information shared helps to reduce information asymmetry between the lenders and, therefore, lenders are able to sieve serial defaulters from the good debtors. Further, the study concluded
that, sharing of consumer default details helps commercial banks to have an in-depth understanding of their customers and this allows banks to have a better prediction of the repayment probability of the borrower. Sharing of default details could also be used as a tool to discipline borrowers since they would be largely aware that once they default in payment they would be blacklisted.

Kisengese (2014) conducted a study on the impact of credit information sharing on the level of non-performing loans of commercial banks in Kenya. The findings were that all banks had challenges with non-performing loans; that sharing of customer credit information affected non-performing loans as it helped banks to decline to lend to chronic defaulters; that including all credit history from other credit suppliers (positive information) would increase credit approval by commercial banks; while a low default rate would result from lending to borrowers based solely on all credit suppliers’ positive information, which would increase credit approval by commercial Banks.
<table>
<thead>
<tr>
<th>Author (Year)</th>
<th>Title of the study</th>
<th>Findings</th>
<th>Gap</th>
<th>Gaps filled</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cowling and Sugden (2014)</td>
<td>Small Firm Lending Contracts: Do Banks Differentiate Between Firms?</td>
<td>The demand of full collateralization reduces the role of interest rates. In as much as full collateralization reduces problems of moral hazard and adverse selection, high security levels also reduce the need for banks to understand the firm.</td>
<td>The study findings that full collateralization alters the banks view of risk and tends to reduce the role of interest rates requires further study.</td>
<td>The study aimed at looking on the margins of collateral. This is because even where the banks have taken margins of up-to 100% of the collateral, there is still the risk of default in payment and the bank cannot ignore this fact.</td>
</tr>
<tr>
<td>Menkhoff, Neuberger and Suwanaporn (2004)</td>
<td>Collateral-based lending in emerging markets: Evidence from Thailand</td>
<td>The incidence and degree of collateral requirement are higher in emerging markets than in the mature markets. Collateral is used to reduce the higher risk of borrowers rather than reduce information asymmetry. Information about ex post default is not significantly related to the degree of collateralization indicating that collateral based lending does not lead to a more...</td>
<td>The study focused on microeconomic determinants of collateralization and failed to look into macroeconomic problems of a higher degree of collateralization. The study never looked into the different types of security that commercial banks request it clients before advancing a credit facility</td>
<td>The study focused more on nature of collateral provided, value of the collateral and costs associated with the collateralization</td>
</tr>
<tr>
<td>Author(s)</td>
<td>Title</td>
<td>Description</td>
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<tr>
<td>Stiglitz and Weiss (2001)</td>
<td>Credit Rationing in Markets with Imperfect Information</td>
<td>Increase in collateral requirements lead to adverse selection effects. The study focused on excess demand for credit facility in the credit markets with imperfect information but never looked into the effect of excess supply of credit facility in the credit market. Collateral rather than the interest rates is allowed to vary. The study was done during a time of credit rationing in the market that was determined by the level of security provided.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nwuba, Egwuatu and Salawu (2013)</td>
<td>The Application of Real Estate as Loan Collateral in Nigeria’s Banking Sector</td>
<td>Real estate is the most widely used collateral instrument and banks follow due process in its application as collateral. The borrower’s title, its nature and the value of the real estate are important considerations when banks apply real estate as loan collateral. The study only focused on the use of Real Estate as the only collateral that commercial banks require whereas there are other forms of security that can be requested by commercial banks.</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>The study focused on the various collateral items that commercial banks require such as logbook, title deed, salary/Pay slip, bank guarantees, debentures, shares, fixed deposits and chattels</td>
<td></td>
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<tr>
<td>Author</td>
<td>Title</td>
<td>Findings</td>
<td>Focus</td>
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<td>------------------------</td>
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<tr>
<td>Ochola (2013)</td>
<td>Determinants of business collaterals and loan portfolio quality of commercial banks’ branches in Kisumu municipality, Kenya</td>
<td>The study found out that the legal environment; microeconomic uncertainty and firm and loan characteristics are the determinants of business collateral and loan portfolio quality.</td>
<td>The study focused on the determinants of collateral such as amount requested, ability to pay and the riskiness of the borrower. The also study focused on the demand for collateral after the interest rate capping.</td>
<td></td>
</tr>
<tr>
<td>Sylla (2001)</td>
<td>Ratings, Rating Agencies and the Global Financial System</td>
<td>The study observed that the rise of credit ratings was as a result of increase in the number of borrowers who could not be independently certified by banks.</td>
<td>The study focused on the sovereign debt issues only primarily in the capital markets.</td>
<td></td>
</tr>
<tr>
<td>Negrila (2009)</td>
<td>The Influence of Rating Changes on Bonds</td>
<td>The Study observed that higher credit ratings led to lower levels of default rates if the credit rating captured all the meaningful economic information about individuals and businesses.</td>
<td>The study only focused on big body corporate and assumed the individuals.</td>
<td></td>
</tr>
<tr>
<td>Reinhart, Levich &amp; Majoni (2012)</td>
<td>Ratings, rating agencies and the global financial system:</td>
<td>Business ratings by commercial banks are a one dimensional method of</td>
<td>The study analyzed the effect of business rating information and</td>
<td></td>
</tr>
<tr>
<td>Summary and Policy Implications</td>
<td>Assessing the Various Risks That a Commercial Bank Faces</td>
<td>Business Ratings and Never Did an Analysis of Their Own</td>
<td>Analysis Was Carried Out</td>
<td></td>
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<td>--------------------------------</td>
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</tr>
<tr>
<td>Nakamura (2010)</td>
<td>Credit Ratings and Bank Monitoring Ability.</td>
<td>Banks Use Private Information About Their Clients to Generate Credit Ratings. Banks Fail to Use Publicly Available Information to Generate Credit Rating Reports.</td>
<td>The Researcher Only Used Two Commercial Banks in the Study Which Cannot Be Enough Representative of the Entire Banking Industry.</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>The Study Looked Into Variables That Determine How Risky a Borrower Is Such as Default Details, Credit Status and Financial Strength of a Business, Identity of an Individual and Business and</td>
<td></td>
</tr>
<tr>
<td>Author(s)</td>
<td>Title</td>
<td>Description</td>
<td>Reference</td>
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<tr>
<td>Pagano and Jappelli (2010),</td>
<td>Role and Effects of Credit Information Sharing</td>
<td>A set of effective indicators may not fit in all the emerging markets, the collateral that can be pledged.</td>
<td>Customer default details improve the banks knowledge of applicant’s characteristics and allow banks have a more accurate prediction on the repayment ability of the borrower. Customer default details operates as a borrower discipline device, it eliminates the probability of over-indebtedness of a consumer by availing all the debts the client has in one report. The study looked at the customer information details shared as containing of only four elements that commercial banks can use in determining whether to lend or not whereas there are other determinants that commercial banks look into before making a final decision. The study focused more on other factors that commercial bank look into before making a lending decision such as the credit status, security the client has provided, the amount that the client is requesting, the ability to pay and how well the lender identifies with the client.</td>
<td></td>
</tr>
<tr>
<td>Suparna (2016),</td>
<td>Smarter Banking: Blockchain technology in the Indian banking system</td>
<td></td>
<td>Blockchain technology can be used to store and verify identity thus retaining security and privacy. Identity verification of borrowers is faster and more efficient with the use of smart identity in the block chain network. The study never used any research methodology in coming up with the conclusions and findings. The study used descriptive research design and multiple linear regression.</td>
<td></td>
</tr>
<tr>
<td>Mwambu (2013)</td>
<td>Factors influencing</td>
<td></td>
<td>Lack of identity verification and The study looked at K.C.B bank The study focused on the</td>
<td></td>
</tr>
<tr>
<td>Author</td>
<td>Title</td>
<td>Summary</td>
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<tr>
<td>Dinh and Kleimeier (2007)</td>
<td>Credit Scoring for Vietnam’s Retail Banking Market: Implementation and Implications for Transactional versus Relationship Lending</td>
<td>Borrower characteristics show different relationships with default risk and they reveal economic aspects that are unique to developing countries. The study was conducted in one commercial bank which was not a good representative of the whole market and it used a total of twenty two variables which clouded the model. The study was conducted in twenty five commercial bank branches which were a representative of the entire industry.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Huia, Li, &amp; Zongfang. (2013)</td>
<td>The Model and Empirical Research of Application Scoring based on Data Mining Method</td>
<td>They concluded that the credit status of a customer can be derived from demographic characteristics, credit history, behavior records and trading records. The study only focused on three behavioral attributes of a borrower. The study looked into demographics, credit history, behavior, identity verification, collateral and business ratings.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Triki and Gajigo (2012)</td>
<td>Credit Bureaus and Registries and Access to Finance: New Evidence from 42 African Countries</td>
<td>Countries that collect positive and negative information on borrowers’ credit status are associated with banks reporting smaller obstacles in access to finance. Not all African countries have embraced the use of neither public nor private registries/bureaus when appraising loan applications. The study looked into commercial banks in Kenya that are actively using CRB as a matter of law.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Authors (Year)</td>
<td>Area of Study</td>
<td>Findings</td>
<td>Further Study</td>
<td></td>
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<tr>
<td>---------------</td>
<td>---------------</td>
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<td></td>
</tr>
<tr>
<td>Thuo (2015)</td>
<td>Effect of credit information sharing on the financial performance of commercial banks in Kenya</td>
<td>There was an insignificant negative relation between credit information sharing, assets quality and banks’ performance in financial perspective. There was a negative relation between capital adequacy and financial performance and an insignificant positive relation between liquidity and banks’ performance in financial perspective.</td>
<td>The variables that were used were capital adequacy, liquidity and asset quality whereas the current study will further the study already done by looking into other variables such as collateral, identity verification, consumer details information and business ratings.</td>
<td></td>
</tr>
<tr>
<td>Kisengese (2014)</td>
<td>The impact of credit information sharing on the level of non-performing loans of commercial banks in Kenya</td>
<td>Customer credit information helped the banks in making decisions on whether to decline or approve an application. Banks only forward negative credit default information to CRB.</td>
<td>From the finding, there is need for further research on the need for banks to forward full file information to the CRB. There is also need to look into the other factors that commercial banks look in to before lending rather than the CRB status only.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Researcher
2.6 Conceptual framework

Independent Variables

Collateral Information
- Nature of collateral
- Value of the collateral
- Costs associated with the collateralization

Business Ratings Information
- The credit score (points)
- Financial strength

Consumer Identity Verification Information
- Biometrics
- Identification documents (ID)

Customers Credit Status Information
- Positive listing
- Negative listing

Consumer Default Details Information
- Number of days in default
- Amounts defaulted
- CRB rating

Dependent Variable

Asset Quality
- Portfolio at Risk (PAR)

Figure 2.1: Conceptual Framework
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
This chapter described the methodology that was used in the research and the chapter focused on the research design, target population, data collection methods, instruments of data collection and data analysis.

3.2 Research design
Saunders, Lewis, and Thornhill (2009) stated that a research design is an outlined plan, structure and strategy for conducting the research. The study used a descriptive research design. Descriptive research helped answer the questions of how, when, why, who and what in as far as credit information sharing is concerned. This was accomplished by understanding the data levels for the measurements, their distributions and characteristics of location, spread and shape Mitchell and Jolley (2009). Descriptive research defined or explained a subject by creating a pool of events, people and problems through data collection. This design was preferred for this research because it enables generalization of the findings to the entire population/industry. In addition, descriptive research design accommodates analysis and relation of variables.

3.3 Target Population
The target population for the study comprised of the twenty five licensed commercial banks operating in Nakuru Town as at December 31, 2017 (CBK Annual Report, 2017). The target respondents were the credit administrators, credit managers and branch managers of the respective commercial banks in Nakuru town. The exact number of individuals targeted in the study was eighty seven.
3.4 Sampling frame
The study sampled twenty five commercial banks that have branches in Nakuru town. Purposive sampling was used and it enabled the researcher to obtain the exact information required from a limited number of people who have that exact information. Out of the eighty seven individuals targeted, seventy eight were directly involved which represented ninety percent of the targeted individuals.

3.5 Data collection instrument
The study used primary data in order to obtain accurate results. The study used open-ended and closed-ended structured questionnaires which were administered to each member of the population. Kothari (2011) terms the questionnaire as the most appropriate instrument due to its ability to collect a large amount of information in a reasonably quick span of time and economical manner. Closed ended question required the respondent to state his level of agreement or disagreement with the proposition while open ended questions required the respondent to provide a detailed response. The study questionnaires was divided into six parts; the first part of the questionnaire collected the demographic characteristics of the respondent while part two to six collected information on the five research objectives respectively. The study measured the respondents’ level of agreement/disagreement with the various issues asked concerning the study objectives. Questions in each part of the questionnaire were largely close ended apart from the closing question which was open-ended to allow the respondents to freely express their views.

3.5.1. Validity
To ensure validity, the questionnaires were constructed with the help of the supervisor who ensured face validity of the questionnaire since the supervisor has vast knowledge in the field.
Pilot testing was carried out on a sample of commercial banks in Njoro town and in Molo town. Ten commercial bank branches were used for the pilot testing and analysis was done to validate the questionnaires. Validity is the degree to which results obtained from the analysis of the data actually represent the phenomena under study Mugenda and Mugenda (2003).

3.5.2. Reliability
Reliability is the ability of the questionnaire used to yield the same results on repeated trials or to consistently give the same results. The computation of the Cronbach alpha score was used to measure reliability of the questionnaires. The following table 3.2 shows the results of reliability analysis and an output of coefficient of 0.70 or higher shows that the variable met the reliability threshold.

<table>
<thead>
<tr>
<th>Variable</th>
<th>No of items</th>
<th>Cronbach alpha</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collateral information</td>
<td>7</td>
<td>0.822</td>
<td>Reliable</td>
</tr>
<tr>
<td>Business ratings information</td>
<td>6</td>
<td>0.878</td>
<td>Reliable</td>
</tr>
<tr>
<td>Consumer identity verification information</td>
<td>6</td>
<td>0.856</td>
<td>Reliable</td>
</tr>
<tr>
<td>Customer credit status information</td>
<td>5</td>
<td>0.832</td>
<td>Reliable</td>
</tr>
<tr>
<td>Consumer default information</td>
<td>7</td>
<td>0.844</td>
<td>Reliable</td>
</tr>
</tbody>
</table>

From the reliability analysis, it was noted that all the variables returned a Cronbach alpha coefficient above the established threshold of 0.7. This indicated that all the variables were reliable.
3.6 **Data Collection Procedure**

Data collection involved the drop and pick procedure. The questionnaires were dropped off at the respondents work stations and given enough time to fill them. After the questionnaires were duly filled the researcher picked them for analysis.

3.7 **Data analysis and presentation**

The data was analyzed using descriptive statistics to describe the data and examine the relationships between the variables under investigation. The data was analyzed through the use of descriptive statistics such as mean, median, mode and percentages. The Statistical Package for Social Sciences was used to analyze the data. The study used inferential statistics such as correlation analysis and multiple linear regression analysis.

3.7.1. **Model Specification**

Multiple linear regression model was used in measuring each variable. The model was important since it presented the effects of credit referencing on asset quality of commercial banks in Nakuru. The test of significance was established through the analysis of Variance (ANOVA). Below is the linear regression model that was used.

\[ Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon \]

where;

- \( Y \) = Asset quality.
- \( \alpha \) = Constant Term
- \( \beta_1 \) = Regression coefficient
- \( X_1 \) = Collateral information
- \( X_2 \) = business ratings information
- \( X_3 \) = consumer identity verification information
- \( X_4 \) = customers credit status information
Table 3.2: Operationalization and measurement of Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Type</th>
<th>Operationalization</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset quality</td>
<td>Dependent</td>
<td>Less than 90 days = less Risky, More than 90 days = Non-performing and Risky</td>
<td>[ PAR = \frac{\text{Total NPA}}{\text{Gross loan Book}} ]</td>
</tr>
<tr>
<td>Security/Collateral</td>
<td>Independent</td>
<td>Various Security items – Land, title deed, share certificate, fixed accounts</td>
<td>Valuation of the security</td>
</tr>
<tr>
<td>Business Rating</td>
<td>Independent</td>
<td>Scores Range from 20 – 100, Below 50 = Risky, Above 50 = Less risky</td>
<td>Performing and non-performing facilities</td>
</tr>
<tr>
<td>Consumer identity verification</td>
<td>Independent</td>
<td>Positive identification of the individual</td>
<td>Positive identification through certifying documents such as the national ID</td>
</tr>
<tr>
<td>Customers credit status</td>
<td>Independent</td>
<td>Positive or negative status</td>
<td>Average number of late payments</td>
</tr>
<tr>
<td>Consumer default details</td>
<td>Independent</td>
<td>Scores range 200-900, Score of less than 400 = Default, Score of more than 400 = Performing</td>
<td>Outstanding balances, Age of loan account, Days of late payments, Available credit</td>
</tr>
</tbody>
</table>

3.8. Ethical Consideration

The research was conducted strictly within the regulatory framework and the researcher observed high standards of objectivity. In light of this, the researcher obtained a research permit from the Ministry of Higher Education Science and Technology through the National Commission for Science, Technology and Innovation. In the course of carrying out the research, various ethical considerations were observed.
considerations were observed. The researcher ensured that the respondent does not suffer, does not feel embarrassed and that there is no loss of privacy. When carrying out the research, the researcher obtained consent from the relevant authority, such as the county commissioner, the county director of education and management of the commercial banks, to carry out the research. The researcher clearly explained to the respondents the benefits of the research. In addition to these ethical considerations, the researcher clearly quoted literal works of other researchers to avoid accusations of plagiarism.
CHAPTER FOUR
DATA ANALYSIS AND PRESENTATION

4.1. Introduction
This chapter presents data related to response rate and demographic characteristics, descriptive and inferential analyses relating to the study objectives.

4.2 Response Rate
The response rate of a test measures the statistical power of a research and the higher the rate the better. A working assumption has been that for a survey to be construed as “good,” it must attain a high response rate of 70% (Groves, 2006). In this study, the researcher distributed 87 questionnaires. It was observed that 78 were duly filled and returned. This represented a response rate of 90%. This response was adequate since it was above the established threshold of 70%.

Table 4.1: Response Rate

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of Questionnaires</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Returned Questionnaires</td>
<td>78</td>
<td>90%</td>
</tr>
<tr>
<td>Non Returned</td>
<td>9</td>
<td>10%</td>
</tr>
<tr>
<td>Total</td>
<td>87</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Data (2018).

4.3 Descriptive Statistics Analysis

4.3.1 Collateral Information
The first objective of the study was to determine the effect of collateral information on asset quality of commercial banks in Nakuru Town, Kenya. The results are presented using descriptive statistics, Pearson correlation and multiple linear Regression model. Table 4.2 shows the
descriptive statistics of Security/Collateral Information. SD – Strongly Disagree, D – Disagree, N – Neutral, A – Agree, SA – Strongly Agree

Table 4.2: Collateral Information

<table>
<thead>
<tr>
<th>Statement</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clients with good repayment records need not to provide tangible collaterals</td>
<td>20(25.6%)</td>
<td>29(37.2%)</td>
<td>13(16.7%)</td>
<td>15(19.2%)</td>
<td>1(1.3%)</td>
</tr>
<tr>
<td>The bank has set the minimum amounts that a client can apply without security</td>
<td>8(10.3%)</td>
<td>16(20.5%)</td>
<td>14(17.9%)</td>
<td>22(28.2%)</td>
<td>18(23.1%)</td>
</tr>
<tr>
<td>Both individual and body corporates provide security when applying for loans</td>
<td>14(17.9%)</td>
<td>27(34.6%)</td>
<td>9(11.5%)</td>
<td>18(23.1%)</td>
<td>10(12.8%)</td>
</tr>
<tr>
<td>Lengthy repayment period are offered to customers who pledge security</td>
<td>11(14.1%)</td>
<td>30(38.5%)</td>
<td>13(16.7%)</td>
<td>17(21.8%)</td>
<td>7(9.0%)</td>
</tr>
<tr>
<td>High costs of collateralization hinders loan uptake by clients</td>
<td>20(25.6%)</td>
<td>22(28.2%)</td>
<td>18(23.1%)</td>
<td>10(12.8%)</td>
<td>8(10.3%)</td>
</tr>
<tr>
<td>Collateral valuation information is key in determining the amount of loans advanced to clients</td>
<td>11(14.1%)</td>
<td>30(38.5%)</td>
<td>2(2.6%)</td>
<td>22(28.2%)</td>
<td>13(16.7%)</td>
</tr>
<tr>
<td>The nature of collateral provided determines the amount to be advanced and the repayment period</td>
<td>8(10.3%)</td>
<td>35(44.9%)</td>
<td>2(2.6%)</td>
<td>20(25.6%)</td>
<td>13(16.7%)</td>
</tr>
</tbody>
</table>

(Source: Researcher)

The study revealed that 20.5 percent (19.2% + 1.3%) of respondents agreed that clients with good repayment records need not to provide tangible collaterals. Similarly, 51.3 percent (28.2%+23.1%) of respondents assert that the bank has set the minimum amounts that a client can apply without security. This may be a potential loop hole which may affect repayment of credit provided thus affecting the Asset Quality in most of the banks sampled. This finding concur with Menkhoff, Neuberger and Suwanaporn (2004) who opine that most loans are collateralized and that collateral is very important in mature markets and the importance even
increases in the less developed markets. They also observed that borrowers who are viewed as risky by the banks were more likely required to pledge a security than less risky customers.

On the other hand, it was important to note that 52.5 percent (17.9%+34.6%) of respondents disagreed that both individual and body corporates provide security when applying for loans. This view was upheld by 52.6 percent (14.1%+38.5%) who disagreed that lengthy repayment period is offered to customers who pledge security. This views suggest that when due procedure is not adhered to regarding customers collateral information; it may threaten the established mode of repayment of a given loan. The findings of this study is in line with Stiglitz and Weiss (2001) who affirm that if borrowers are risk neutral and subject to limited liability, then a lender may not be willing to increase the interest rate on the loans to eliminate excess demand. The analysis also pointed out that the lender may not use collateral as a rationing tool even where the borrowers are risk neutral because an increase in collateral requirements has the effect of reducing the lenders’ expected return on the loans.

Finally, it was observed that 23.1 percent (12.8%+10.3%) of respondents agreed that high costs of collateralization hinders loan uptake by clients. This view was upheld by 44.9 percent (28.2%+16.7%) of respondents who assert that Collateral valuation information is key in determining the amount of loans advanced to clients. Equally, 42.3 percent (16.7%+25.6%) stated that the nature of collateral provided determines the amount to be advanced and the repayment period. This view suggest that collateral is an important element that will ultimately affect asset quality of a bank.(cite)This study finding corroborates Ochola (2013) who observes that loan type are the main determinants of business collateral and loan portfolio quality.
In summary, it was noted that the nature of collateral requested by the bank included Logbook, Title deed, Salary/Pay slip, Bank guarantees and Debentures. Similarly, it was identified that the costs/charges are associated with collateralization in the bank included valuation fee, legal fees, charging and Joint registration fee. In the same way, majority of respondents reported that amounts requested the client to provide security was up to 500,000 shillings.

4.3.2 Business Ratings Information
The second objective of the study was to determine the effect of business ratings information on the asset quality of commercial banks in Nakuru Town, Kenya. Percentages and correlation coefficients were used.

Table 4.3: Business Ratings Information

<table>
<thead>
<tr>
<th>Statement</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>The bank considers the time the business has been in operation before advancing credit facilities</td>
<td>6(7.7%)</td>
<td>15(19.2%)</td>
<td>11(14.1%)</td>
<td>21(26.9%)</td>
<td>25(32.1%)</td>
</tr>
<tr>
<td>The bank considers transparent business practices before advancing credit</td>
<td>12(15.4%)</td>
<td>26(33.3%)</td>
<td>13(16.7%)</td>
<td>16(20.5%)</td>
<td>11(14.1%)</td>
</tr>
<tr>
<td>The bank considers other factors about the business other than the CRB rating</td>
<td>21(26.9%)</td>
<td>22(28.2%)</td>
<td>7(9.0%)</td>
<td>18(23.1%)</td>
<td>10(12.8%)</td>
</tr>
<tr>
<td>The bank lends to businesses with a score of between 50 and 100</td>
<td>22(28.2%)</td>
<td>28(35.9%)</td>
<td>16(20.5%)</td>
<td>8(10.3%)</td>
<td>4(5.1%)</td>
</tr>
<tr>
<td>The information in the business credit report is used by the bank in considering whether a client will make timely payment of the loan plus interest.</td>
<td>20(25.6%)</td>
<td>34(43.6%)</td>
<td>1(1.3%)</td>
<td>21(26.9%)</td>
<td>2(2.6%)</td>
</tr>
<tr>
<td>The bank requests the financial statement of the company.</td>
<td>15(19.2%)</td>
<td>38(48.7%)</td>
<td>4(5.1%)</td>
<td>13(16.7%)</td>
<td>8(10.3%)</td>
</tr>
</tbody>
</table>
(Source: Researcher)
Asset quality is a key parameter in commercial banks. The study found that 59 percent (32.1%+26.9%) reported that the bank considers the time the business has been in operation before advancing credit facilities. It was evidenced by 35.9 percent (23.1%+12.8%) who also maintained that their banks considered other factors about the business other that the CRB rating. This is a good business practice as it establishes whether a customer is in a position to repay the credit advanced. Rojas-Suarez (2002) affirms that the banking problems could not be solved only by the credit rating agencies but also by the use of alternative indicators that showed the riskiness of individual banks and proposed the alternative indicators as the interest rate paid on deposits and the interest rate spread.

It was notable that 27 per cent (16.7%+10.3%) of respondents agreed that the bank requests the financial statement of the company. However, it was noted that 64.1 per cent (28.2%+35.9%) of respondents disagreed that their banks lends to businesses with a score of between 50 and 100 as well as that the information in the business credit report was used by their banks in considering whether a client will make timely payment of the loan plus interest (69.2 percent = 25.6%+43.6%). Equally, 48.7 per cent (15.4%+33.3%) of respondents disagreed that their banks considered transparent business practices before advancing credit. This could be a reason of non-performance of loans products in majority of banks. The study finding is in line with that of Nakamura (2010) who observed that bank officers put more emphasis on private information leading to overconfidence when carrying out risk analysis.
4.3.3 Consumer Identity Verification Information

The third objective of the study was to examine the effect of consumer identity verification information on the asset quality of commercial banks in Nakuru Town, Kenya. Percentages and correlation coefficients were used in the analysis.

Table 4.4: Consumer Identity Verification Information

<table>
<thead>
<tr>
<th>Statement</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>The bank uses non-documentary methods to verify the identity of the customer with third parties</td>
<td>6(7.7%)</td>
<td>13(16.7%)</td>
<td>8(10.3%)</td>
<td>18(23.1%)</td>
<td>33(42.3%)</td>
</tr>
<tr>
<td>For business accounts, the bank does search with the registrar of companies to know the identity of the owners</td>
<td>13(16.7%)</td>
<td>22(28.2%)</td>
<td>13(16.7%)</td>
<td>20(25.6%)</td>
<td>10(12.8%)</td>
</tr>
<tr>
<td>The bank has onboarded its clients into the system through the use of biometric to capture unique identities</td>
<td>18(23.1%)</td>
<td>20(25.6%)</td>
<td>6(7.7%)</td>
<td>25(32.1%)</td>
<td>9(11.5%)</td>
</tr>
<tr>
<td>The bank has to verify the identity of the client with the specimen signature held within the database</td>
<td>21(26.9%)</td>
<td>20(25.6%)</td>
<td>27(34.6%)</td>
<td>5(6.4%)</td>
<td>5(6.4%)</td>
</tr>
<tr>
<td>The bank has to verify the identity of the client with the image held within the database</td>
<td>18(23.1%)</td>
<td>35(44.9%)</td>
<td>0(0.0%)</td>
<td>25(32.1%)</td>
<td>0(0.0%)</td>
</tr>
<tr>
<td>The bank has collected and stored customer identifying documents</td>
<td>11(14.1%)</td>
<td>40(51.3%)</td>
<td>3(3.8%)</td>
<td>15(19.2%)</td>
<td>9(11.5%)</td>
</tr>
</tbody>
</table>

*(Source: Researcher)*.

Consumer identity verification procedures are meant to ensure that the commercial bank is dealing with a person that actually exists. From the study findings in table 4.4, respondents’ affirmed that their banks has to verify the identity of the client with the image held within the database (32.1%); and that the bank has on boarded its clients into the system through the use of biometric to capture unique identities ($43.6\% = 32.1\% + 11.5\%$). Similarly, respondents affirmed
that their banks uses non-documentary methods to verify the identity of the customer with third parties (65.4 percent = 42.3%+23.1%). This confirms the position that proper verification will improve on banks asset quality. The finding is in support the study by Jappelli and Pagano (2010) who emphasized that proper customer verification and background checks were directly proportional to the level of performing facilities held by commercial banks.

On the other hand, it was disturbing to note that respondents disagreed that their banks had collected and stored customer identifying documents (65.4 percent = 14.1%+51.3%) as well as that their banks has to verify the identity of the client with the specimen signature held within the database (52.5 percent = 25.6%+26.9%). It was also seen that respondents disagreed that the bank does search with the registrar of companies to know the identity of the owners (16.7%+28.2% = 44.9%). This could be the reason for non-performing loans in some of the banks as the consumers defaulted loan repayments. This finding agrees with that of Mwambu (2013) who underscores that lack of standardized identity verification and authentication tools by commercial banks largely contributed to fraud in commercial banks in Kenya. This consequently increasing the total Non-Performing Loans held by commercial banks.

Despite this challenge, respondents highlighted that the verification documents they requested clients include National identity card (ID), Passport, Employers’ ID, Alien ID and Tax ID (KRA PIN). However, proper verification needs to be adopted in order to ensure that clients are accurately identified.

4.3.4 Customers Credit Status Information
The fourth objective of the study was to determine the effect of Customers credit status information on asset quality of commercial banks in Nakuru Town, Kenya.
Credit status of a customer is an important factor to be considered by lending institutions before advancing loan products. It was remarkable that 34.7 percent (32.1% + 2.6%) agreed that the bank advances loans to customers with positive credit status only. However, only 16.6 percent (3.8% + 12.8%) agreed that the bank advances loans to customers who had previously been negatively listed but have updated their credit status. It was also noted that 62.8 percent (34.6% + 28.2%) agreed that the bank requests the credit status every time it interacts with the customer. This means that when appropriate customers’ credit status is adequately provided, problems related to non-performance of loans will be addressed. This concurs with that of Opiyo (2016) who advances that the CRB regulations require that lenders share both positive and negative information about the individual. In the same way Dinh and Kleimeier (2007) stresses that banks use the credit scoring model to quantitatively analyze a borrower’s situation and in the

---

**Table 4. Customers Credit Status Information**

<table>
<thead>
<tr>
<th>Statement</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>The bank requests the credit status every time it interacts with the customer</td>
<td>4(5.1%)</td>
<td>17(21.8%)</td>
<td>8(10.3%)</td>
<td>22(28.2%)</td>
<td>27(34.6%)</td>
</tr>
<tr>
<td>The bank waives collateral requirement for clients with positive listing</td>
<td>13(16.7%)</td>
<td>23(29.5%)</td>
<td>14(17.9%)</td>
<td>18(23.1%)</td>
<td>10(12.8%)</td>
</tr>
<tr>
<td>Customers with negative credit status are required to provide additional security</td>
<td>23(29.5%)</td>
<td>19(24.4%)</td>
<td>9(11.5%)</td>
<td>16(20.5%)</td>
<td>11(14.1%)</td>
</tr>
<tr>
<td>The bank advances loans to customers who had previously been negatively listed but have updated their credit status</td>
<td>17(21.8%)</td>
<td>26(33.3%)</td>
<td>22(28.2%)</td>
<td>10(12.8%)</td>
<td>3(3.8%)</td>
</tr>
<tr>
<td>The bank advances loans to customers with positive credit status only</td>
<td>15(19.2%)</td>
<td>35(44.9%)</td>
<td>1(1.3%)</td>
<td>25(32.1%)</td>
<td>2(2.6%)</td>
</tr>
</tbody>
</table>

(Source: Researcher).
process of scoring they come up with a customer credit status that allows a bank to make an informed decision on whether to lend or not.

It was equally noted that respondents disagreed that customers with negative credit status are required to provide additional security (53.9 percent = 29.5%+24.4%) as well as that the bank waives collateral requirement for clients with positive listing (46.2 percent = 16.7%+29.5%).

In another study, Hales (2017) maintains that well-managed credit risk rating systems promote bank safety and soundness by facilitating informed decision making. Rating systems measure credit risk and differentiate individual credits and groups of credits by the risk they pose. This allows bank management and examiners to monitor changes and trends in risk levels. The process also allows bank management to manage risk to optimize returns.

### 4.3.4.1 Listing of Credit Products

The study further inquired from respondents the days considered negative or positive listing. The findings are presented in Table 4.6.

<table>
<thead>
<tr>
<th>Statement</th>
<th>0 - 14 days in arrears</th>
<th>15 - 29 days in arrears</th>
<th>30 - 59 days in arrears</th>
<th>60 – 89 days in arrears</th>
<th>90 - 180 days in arrears</th>
<th>360 and above days in arrears</th>
</tr>
</thead>
<tbody>
<tr>
<td>Days in arrears when the bank consider a negative listing</td>
<td>6(7.7%)</td>
<td>10(12.8%)</td>
<td>17(21.8%)</td>
<td>14(17.9%)</td>
<td>30(38.5%)</td>
<td>1(1.3%)</td>
</tr>
<tr>
<td>Days in arrears when the bank consider a positive listing</td>
<td>18(23.1%)</td>
<td>28(35.9%)</td>
<td>8(10.3%)</td>
<td>16(20.5%)</td>
<td>8(10.3%)</td>
<td>0(0.0%)</td>
</tr>
</tbody>
</table>

(Source: Researcher)

As regards to Arrears Listing, 38.5% affirmed that their firms considers between 90 - 180 days in arrears when the bank consider a negative listing while 35.9% aver that they considers between 15 - 29 days in arrears a positive listing.
4.3.5 Consumer Default Information

The fifth objective of the study was to establish the effect of consumer default information details on asset quality of commercial banks. The finding is presented in table 4.7.

Table 4.7: Consumer Default Information

<table>
<thead>
<tr>
<th>Statement</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>The bank issues demand letters to clients before listing them as defaulters</td>
<td>9</td>
<td>14</td>
<td>15</td>
<td>16</td>
<td>24</td>
</tr>
<tr>
<td>The bank classifies the default information of a consumer into one of the several predetermined classification</td>
<td>7</td>
<td>21</td>
<td>13</td>
<td>15</td>
<td>22</td>
</tr>
<tr>
<td>Past repayment record of client affects the future borrowings of a client</td>
<td>13</td>
<td>27</td>
<td>12</td>
<td>18</td>
<td>8</td>
</tr>
<tr>
<td>The bank lends to consumers with credit rating of more than 500 score only</td>
<td>15</td>
<td>29</td>
<td>13</td>
<td>13</td>
<td>8</td>
</tr>
<tr>
<td>The bank updates the default information immediately the customers clears the overdue principal and interest</td>
<td>18</td>
<td>24</td>
<td>21</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Default occurs when the customer is 90 days overdue</td>
<td>16</td>
<td>33</td>
<td>9</td>
<td>16</td>
<td>4</td>
</tr>
<tr>
<td>The bank sends consumer default information to the bureau monthly.</td>
<td>20</td>
<td>31</td>
<td>5</td>
<td>15</td>
<td>7</td>
</tr>
</tbody>
</table>

(Source: Researcher)

As indicated by table 4.7, it was clear that 47.4 percent (28.2%+19.2%) agreed that the bank classifies the default information of a consumer into one of the several predetermined classification. As a result, the bank issues demand letters to clients before listing them as defaulters (51.3 percent = 30.8%+20.5%). This shows that majority of banks are following laid down procedures in listing of defaulters. This finding corroborates Thuo (2015) who concluded that consumer default information enhances banks’ performance as it helps reduce the level of non-performing loans, thus improving banks’ profitability.
Nevertheless, it was disturbing to note that respondents disagreed that past repayment record of client affects the future borrowings of a client and that the bank updates the default information immediately the customers clears the overdue principal and interest with 51.3 percent (16.7%+34.6%) and 53.9 percent (23.1%+30.8%) respectively. It was disagreed by 56.4 percent (19.2%+37.2%) of respondents that the bank lends to consumers with credit rating of more than 500 score only. Also, 62.8 percent (20.5%+42.3%) disagreed that default occurs when the customer is 90 days overdue. It can be argued that lack of proper credit ratings plus appropriate recovery period could endanger asset quality of commercial banks.

By and large, 65.3 per cent (25.6%+39.7%) disagreed that their banks was in a position to send consumer default information to the bureau monthly. This challenge cold affect asset quality in commercial banks as lenders may fail to clearly identify successive defaulters. On the other hand, 28.2 percent (9%+19.2%) agreed that their banks was in a position to send consumer default information to the bureau monthly. This conforms to the views of Pagano and Jappelli (2010) who affirm that default information shared helps to reduce information asymmetry between the lenders and, therefore, lenders are able to sieve serial defaulters from the good debtors. Further, the study concluded that, sharing of consumer default details helps commercial banks to have an in-depth understanding of their customers and this allows banks to have a better prediction of the repayment probability of the borrower.
4.4 Inferential statistical Analysis

4.4.1 Correlation Analysis

Pearson correlation analysis was to determine the nature of the relationship between the independent and dependent variables. The finding is presented in Table 4.8.

Table 4.8: Correlations between Independent and Dependent Variables

<table>
<thead>
<tr>
<th></th>
<th>Asset Quality</th>
<th>Security/Collateral Information</th>
<th>Business Ratings Information</th>
<th>Consumer Identity Verification Information</th>
<th>Customer’s Credit Status Information</th>
<th>Consumer Default Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Quality</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-Tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Security/Collateral Information</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>.393***</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-Tailed)</td>
<td>.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>78</td>
<td>78</td>
<td>78</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Ratings Information</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>.546***</td>
<td>.505***</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-Tailed)</td>
<td>.000</td>
<td>.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>78</td>
<td>78</td>
<td>78</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer Identity Verification Information</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>.243*</td>
<td>.217</td>
<td>.499**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-Tailed)</td>
<td>.032</td>
<td>.057</td>
<td>.000</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>N</td>
<td>78</td>
<td>78</td>
<td>78</td>
<td>78</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer’s Credit Status Information</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>.232*</td>
<td>.427**</td>
<td>.689**</td>
<td>.326**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Sig. (2-Tailed)</td>
<td>.041</td>
<td>.000</td>
<td>.000</td>
<td>.004</td>
<td>78</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>78</td>
<td>78</td>
<td>78</td>
<td>78</td>
<td>78</td>
<td></td>
</tr>
<tr>
<td>Consumer Default Information</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>.511**</td>
<td>.440**</td>
<td>.646**</td>
<td>.434**</td>
<td>.520**</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-Tailed)</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>78</td>
<td>78</td>
<td>78</td>
<td>78</td>
<td>78</td>
<td>78</td>
</tr>
</tbody>
</table>

**. Correlation Is Significant At The 0.01 Level (2-Tailed).
*. Correlation Is Significant At The 0.05 Level (2-Tailed).

(Source: Researcher)

The finding revealed that there exists a positive and statistically significant relationship between Security/Collateral Information and Asset Quality ($r = .393**; p < 0.01$). This implies that when the
nature of collateral, charges associated with collateralization and all the collateral information is improved in the bank, its Asset Quality improves. Similarly, when collateral information is not properly documented will lead to non-performance in loans. This finding corroborates Owino (2013) who emphasized that lending policies and non-performing loans are indeed related. Lending policies helps the banks lend prudently and lowers the risk level to the banks, and strict adherence to lending policies therefore has led to reduced non-performing loans.

Moreover, the finding revealed that there exists a positive and statistically significant relationship between Business Ratings Information and Asset Quality\( (r=0.546^{**}; \ p<0.01) \). This indicates that development and implementation of Business Ratings Information will improve Asset Quality of a bank. However, lack of implementation of Business Ratings Information will decrease its Asset Quality. In other words commercial banks should lend to individuals and businesses that have a high credit rating in order to improve on their loan performance. This finding is consistent with Wanjira (2010) who noted that there was a positive relationship between non-performing loans management practices and the financial performance of commercial banks in Kenya which implies that adoption of nonperforming loans management practices leads to improved financial performance of commercial banks in Kenya.

Similarly, it was noted that there exists positive and statistically significant relationship between Consumer identity verification information and Asset quality\( (r=0.243^{*}; \ p<0.05) \). This shows that once procedure in consumer identity verification is accurately documented, asset quality of banks will improve. However, lack of proper verification of clients before acquiring loans will lead to downward trend in the asset quality of banks.
Satish and Sumanta (2018) advises that without an appropriate governance structure and operational setup, banks will not be able to address their NPL issues in an efficient and sustainable way. Similarly, Shahbaz, Tabassum, Muhammad, Mansoor, Hafiz and Yasir (2012) concluded that non-performing loans are increasing due to lack of risk management which threatens the profitability of banks.

Equally, the study found that there exists positive and statistically significant relationship between Customer’s credit status information and Asset quality ($r=0.232^*; p<0.05$). This indicates that proper enhancement of Customer’s credit status information will improve on Asset quality of a bank. Conversely, lack of correct customer’s credit status information could lead to decrease in Asset quality, characterized by non-performing loans. Akehege (2011) found out in a research that character of a loanee was most considered when appraising loan applications being one of the characteristics included in the credit scoring card. As a result, it was clear that all banks loan books contained a significant level of non-performing loans. Also, the finding agrees with Kisengese (2014) who states that all banks had challenges of non-performing loans. Sharing of customer credit information affected the Non-performing loans as it helped the banks to decline loaning chronic defaulters; Including all credit history from other credit suppliers (positive information) would increase credit approval by commercial banks, while low default rate would result from lending to borrowers based solely on all credit suppliers positive information which would increase credit approval by commercial Banks.

Additionally, the study established that there exists positive and statistically significant relationship between Consumer default information and Asset quality ($r=0.511^{**}; p<0.01$). This indicates that proper documentation in Consumer Default Information enhances Asset quality in commercial banks. Conversely, lack of appropriate regarding consumer default information may
reduce banks Asset quality. This view agrees that of Kisaka (2016) who found a positive relationship between credit rating practices and performance of the loan book in commercial banks of Kenya. The author further concluded that commercial banks consider the historical background of borrowers, capacity to pay loan, credit reference report, and collateral for the loan and credit rationing in assessment of the credit risk.

4.4.2 Regression Analysis
To determine the effects of credit information on asset quality, multiple linear regression was used. Table 4.9 shows the model summary.

4.8.1. Model Summary

Table 4.9: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.645a</td>
<td>.416</td>
<td>.375</td>
<td>.860</td>
</tr>
</tbody>
</table>

*a. Predictors: (Constant), Consumer Default Information, Consumer Identity Verification Information, Security/Collateral Information, Customer’s Credit Status Information, Business Ratings Information
(Source: Researcher)*

It is reported that R-squared is a goodness-of-fit measure for linear regression models. This statistic indicates the percentage of the variance in the dependent variable that the independent variables explain collectively. R-squared measures the strength of the relationship between your model and the dependent variable (Frost, 2018). Regarding Table 4.9, the model indicates that 37.5% in Asset quality is explained by consumer default, consumer identity verification, security/collateral, customer’s credit status and business ratings information.
4.4.3 Analysis of Variance

Fischer distribution test called F-test (ANOVA) was applied. It refers to the ratio between the model mean square divided by the error mean square. F-test was used to test the significance of the overall model at 5% confidence level. Table 4.10 presents the ANOVA test.

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>37.926</td>
<td>5</td>
<td>7.585</td>
<td>10.255</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>53.254</td>
<td>72</td>
<td>.740</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>91.179</td>
<td>77</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Asset Quality
b. Predictors: (Constant), Consumer Default Information, Consumer Identity Verification Information, Security/Collateral Information, Customer’s Credit Status Information, Business Ratings Information
(Source: Researcher)

In this study, the p-value for the F-statistic was applied in determining the robustness of the model. if the p-value is less than 0.05 then it will be concluded that the model is significant and has good predictors of the dependent variable and that the result are not based on chance. According to Table 4.10, the model is significant in predicting the dependent variable at 0.05 level, F (5, 72) =10.255, p< 0.05. It was therefore concluded that the model was significant and has good predictors of the dependent variable and that the result are not based on chance.
4.4.4 Regression Coefficients

Table 4.11: Regression Coefficients\textsuperscript{a}

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>t</td>
</tr>
<tr>
<td>(Constant)</td>
<td>.933</td>
<td>.407</td>
<td>2.294</td>
</tr>
<tr>
<td>Security/Collateral Information</td>
<td>.176</td>
<td>.130</td>
<td>1.351</td>
</tr>
<tr>
<td>Business Ratings Information</td>
<td>.594</td>
<td>.163</td>
<td>3.635</td>
</tr>
<tr>
<td>Consumer Identity Verification Information</td>
<td>-.093</td>
<td>.118</td>
<td>-.792</td>
</tr>
<tr>
<td>Customer’s Credit Status Information</td>
<td>-.325</td>
<td>.119</td>
<td>-2.720</td>
</tr>
<tr>
<td>Consumer Default Information</td>
<td>.363</td>
<td>.144</td>
<td>2.514</td>
</tr>
</tbody>
</table>

\textsuperscript{a} Dependent Variable: Asset quality

4.4.5. Model Specification

To determine the effect of credit referencing on asset quality, the unstandardized beta for this regression model was used. From the results in table 4.11, the regression equation can be fitted as follows:

The equation of the Model was derived as follows:

\[
Y = 0.933 + 0.176X_1 + 0.594X_2 - 0.093X_3 - 0.325X_4 + 0.363X_5 + 0.86
\]

Asset quality(Y) = 0.933 + \([0.176*\text{Collateral Information}] + [0.594*\text{Business Ratings Information}]-[0.093*\text{Consumer Identity Verification Information}]-[0.325*\text{Customer’s Credit Status Information}]+[0.363*\text{Consumer Default Information}]+0.86.

The study revealed that Business Ratings and Collateral Information significantly influences up to 59.4\% and 17.6\% positive variation on Asset quality respectively. This implies that for every
one unit increase in Business Ratings information asset quality increase by 59.4 % while Collateral Information increases Asset quality by 17.6 %.

It was also observed that Consumer Default Information significantly influences 36.3% positive variation on Asset quality. However, it was noted that Customer’s Credit Status Information significantly influences 32.5% negative variation on Asset quality. This implies that for every one unit increase in Customer’s Credit Status Information, Asset quality decreases by 32.5%. Similarly, Consumer Identity Verification Information influences negatively Asset quality by 9.3%. In this study, Business ratings information is the best predictor of asset quality.

Therefore, the effect of the independent variables on the dependent variable is significant with business rating significantly influencing asset quality by 59.4%. On the other hand, customer’s credit status information was insignificant since for every one unit increase in customer’s credit status information, asset quality decreases by 32.5%. Customer’s credit status variable could be eliminated from the model without significantly impacting the accuracy of the model.
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This chapter presents Summary of key finding, conclusion and Recommendations based on the objectives of the study.

5.2 Summary
The first objective of the study was to determine the effect of collateral information on asset quality of commercial banks in Nakuru Town, Kenya. The finding revealed that there exist positive and statistically significant relationship between collateral information and asset quality. Additionally, it was established that collateral information influences positively on asset quality. These finding concurs with Ochola (2013) who affirms that all commercial banks require collateral for any loan to be processed. Results of the study furthermore reveal strong relationship between legal environment, microeconomic uncertainty and firm and loan characteristics as determinants of business collateral to loan portfolio quality predicting 72.94% of changes in loan portfolio quality. Therefore from the results, these are the major determinants of business collateral and loan portfolio quality.

The second objective of the study was to determine the effect of business ratings information on the asset quality of commercial banks in Nakuru Town, Kenya. The finding revealed that there exist positive and statistically significant relationship between business ratings information and asset quality. Additionally, business ratings information significantly influences positively on asset quality. Kadioglu, Niyazi, and Nurcan (2017) asserts that asset quality of commercial banks has significant importance on financial system of the country and to national economy besides its
effects to bank profitability; it is required to measure, oversee, examine effectively the impacts of non-performing loans and accordingly to initiate effective economic policies.

The third objective of the study was to determine the effect of consumer identity verification information on the asset quality of commercial banks in Nakuru Town, Kenya. It was noted that there exists positive and statistically significant relationship between Consumer identity verification information and Asset quality and that consumer identity verification information influences negatively on asset quality. This study finding concurs with Adewale and Awoniyi (2017) who found out that effective credit administration has significant impact in detecting falsified customers’ security documentation in Nigerian commercial banks while a positive relationship exists between efficiently managed loans and advances and resulting profitability.

The fourth objective of the study was to determine the effect of customers’ credit status information on asset quality of commercial banks in Nakuru Town, Kenya.

The study found that there exist positive and statistically significant relationship between Customer’s credit status information and Asset quality. It was noted that customer’s credit status information significantly influences negative variation on asset quality. This corresponds with a research by ChidoMakomeke, Chipchedenga and Chitura (2016) who maintain that most commercial banks worldwide employ a number of credit appraisal techniques when assessing the credit worthiness of a prospective borrower and this is meant to assist in improving loan quality. Research findings also indicated that, the internal rating system is one of the most common and effective credit appraisal technique employed by every commercial bank in Zimbabwe and is an important tool in credit risk management.
Finally, the fifth objective of the study was to establish the effect of consumer default information details on asset quality of commercial banks. The study established that there exists positive and statistically significant relationship between consumer default information and asset quality. Consumer default information was found to significantly influence a positive variation on asset quality. These findings corroborates with Karumba and Wafula (2012) who concludes that deepening the use of credit referencing, and introduction of credit risk transfer instruments; most basic of which is credit derivatives, could increase lending activity so long as the necessary institutional capacity, regulation and oversight are addressed well in advance.

5.3. Conclusion
On the basis of the findings of the first objective, the study concludes that security/collateral information influences positively on asset quality. This implies that when proper documentation regarding the nature of collateral as well as the charges associated with collateralization is developed in the bank, its asset quality improves.

Regarding the findings of the second objective, the study concludes that business ratings information significantly influences positively on asset quality. This indicates that commercial banks should lend to individuals and businesses that have a high credit rating in order to improve on their asset quality.

Concerning the findings of the third objective, the study concludes that consumer identity verification information influences negatively on asset quality. Therefore, lack of proper verification of clients before acquiring loans will lead to plunging trend in the asset quality of banks.

On the basis of the findings of the fourth objective, the study concludes that customer’s credit status information significantly influences negative variation on asset quality. Therefore, lack of
correct customer’s credit status information could lead to decrease in asset quality, characterized by non-performing loans.

Vis-à-vis the findings of the fifth objective, the study concludes that consumer default information significantly influence positive variation on asset quality. This indicates that proper records regarding consumer default enhances asset quality in commercial banks.

5.4 Recommendations

The study recommends that collateral information should be controlled in order to promote positive loan performance by commercial banks. Moreover, business ratings information should be adequately provided in order to enhance the quality of asset portfolio held by commercial banks. The study further recommends that proper verification of clients should be promoted by commercial banks in order to control Non-Performing Loans. In this regard, the study highly recommends the use of biometric signature for loan applicants to avoid instances of fraud and misrepresentation. The study also recommends implementation of correct customer’s credit status information to avert incidences of serial Non-Performing Loans. Finally, the study recommends that holistic recording concerning consumer default should be developed in order to improve asset quality in commercial banks. Updating and reporting of consumer default information should be done regularly to enable the commercial banks have the most updated information concerning a loan applicant.

5.5 Suggestion for Further Research

A research could be carried out on the challenges affecting development of credit referencing information among commercial banks.
REFERENCES


APPENDICES

Appendix 1: Letter of Introduction
September 01, 2018

Dear Respondent,

RE: QUESTIONNAIRE COMPLETION: CREDIT INFORMATION AND ASSET QUALITY OF COMMERCIAL BANKS IN NAKURU TOWN, KENYA

I am an MBA student at Kenyatta University conducting a research on the commercial banks in Nakuru town, Kenya. My research aims at looking into the effects of credit information and asset quality of commercial banks in Nakuru town, Kenya. The study is being carried out in Partial Fulfillment of the Award of the Degree of Masters in Business Administration, Kenyatta University

The information provided will be treated with confidentiality and no instances will your name be mentioned in this research. The information will not be used for any other purpose other than for this academic exercise.

Your assistance in facilitating the same will be highly appreciated. A copy of this research paper will be made available to you upon request.

Yours faithfully,

John K Kaigu

MBA Student
Appendix 2: Questionnaire
RESEARCH QUESTIONNAIRE

As part of my research for Master’s degree in Business Administration (MBA) program at Kenyatta University, I am conducting this questionnaire on all the licensed commercial banks in Nakuru Town. I seek to understand and evaluate Credit information and asset quality of commercial banks in Nakuru Town, Kenya. I highly appreciate you for taking your time to complete the questionnaire. It should take about fifteen minutes of your time. Your responses will be highly confidential and you are kindly requested to fill in the questionnaire according to the instructions provided. Kindly put a tick against the correct choice. Please remember not to indicate your name on the questionnaire. If you have any question or concern, you can contact me through my phone number 0726995492 or through my email address johnkinyats@yahoo.com or jkkaigu@gmail.com

Section I

(A) DEMOGRAPHIC CHARACTERISTICS
1. Name of commercial bank
   (Optional)..............................................................................................................................

2. Kindly indicate your age category

   Below 25 years [ ]

   25 -29 years [ ]

   30 -34 years [ ]

   35 – 39 years [ ]

   40 and above years [ ]
3. What is your highest academic qualification?

Certificate [ ] Diploma [ ]

First Degree [ ] Post-Graduate Degree [ ]

4. Do you have any professional qualifications?

Yes [ ] No [ ]

If “Yes”, kindly specify ...................................................

5. How long have you been attached to the credit department?

Less than 5 years [ ]

6 years to 10 years [ ]

11 years to 20 years [ ]

More than 20 years [ ]

6. How long have you worked with the present commercial banks?

Less than 1 year [ ]

1 to 3 years [ ]

More than 3 years [ ]

7. Which of the following most closely matches your job title?

Branch Manager ( ) Credit Manager ( ) Credit Administrator ( )

8. What is the ownership structure of the Bank?

[ ] Foreign Ownership [ ] Wholly Government Owned [ ] Locally Owned

[ ] Government/Foreign Owned [ ] Government/Locally Owned
Kindly indicate your level of agreement with the various propositions under each of following sections: Collateral/security information, business ratings information, consumer identity verification information, customer’s credit status information and consumer default information. Key: Strongly Disagree (SD), Disagree (D), Neutral (N), Agree (A), and Strongly Agree (SA) respectively.

### B THE EFFECT OF SECURITY/COLLATERAL INFORMATION

<table>
<thead>
<tr>
<th></th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>The nature of collateral provided determines the amount to be advanced and the repayment period</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Collateral valuation information is key in determining the amount of loans advanced to clients</td>
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<tr>
<td>High costs of collateralization hinders loan uptake by clients</td>
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<tr>
<td>Lengthy repayment period are offered to customers who pledge security</td>
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<td></td>
</tr>
<tr>
<td>Both individual and body corporates provide security when applying for loans</td>
<td></td>
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<tr>
<td>The bank has set the minimum amounts that a client can apply without security</td>
<td></td>
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</tr>
<tr>
<td>Clients with good repayment records need not to provide tangible collaterals</td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>
8. What is the nature of collateral requested by the bank?
   a) Logbook
   b) Title deed
   c) Salary/Pay slip
   d) Bank Guarantees
   e) Debentures
   f) Shares
   g) Fixed deposits
   h) Chattels
   i) Any other

9. What costs/charges are associated with collateralization in the bank?
   a) Valuation fee
   b) Legal fees
   c) Charging
   d) Joint registration

10. To what amounts do you request the client to provide security (in Ksh)?
   a) 0 – 10,000
   b) 10,000 – 50,000
c) 50,000 – 100,000  
d) 100,000 – 500,000  
e) 500,000 – 1,000,000  
f) Above 1,000,000  
g) Any other amount

C THE EFFECT OF BUSINESS RATINGS INFORMATION

<table>
<thead>
<tr>
<th>The bank requests the financial statement of the company.</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>The information in the business credit report is used by the bank in considering whether a client will make timely payment of the loan plus interest.</td>
<td></td>
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<tr>
<td>The bank lends to businesses with a score of between 50 and 100</td>
<td></td>
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</tr>
<tr>
<td>The bank considers other factors about the business other that the CRB rating</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>The bank considers transparent business practices before advancing credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The bank considers the time the business has been in operation before advancing credit facilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
D CONSUMER IDENTITY VERIFICATION INFORMATION

<table>
<thead>
<tr>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>The bank has collected and stored customer identifying documents</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>The bank has to verify the identity of the client with the image held within the database</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>The bank has to verify the identity of the client with the specimen signature held within the database</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The bank has on boarded its clients into the system through the use of biometric to capture unique identities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>For business accounts, the bank does search with the registrar of companies to know the identity of the owners</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The bank uses non-documentary methods to verify the identity of the customer with third parties</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

11. What are the identity verification documents do you request clients to provide?

a) National identity card (ID)

b) Passport

c) Employers’ ID

d) Alien ID

e) Tax ID (KRA PIN)

f) Any other …………………………………………………………………….
E CUSTOMER’S CREDIT STATUS INFORMATION

<table>
<thead>
<tr>
<th></th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>The bank advances loans to customers with positive credit status only</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The bank advances loans to customers who had previously been negatively listed but have updated their credit status</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers with negative credit status are required to provide additional security</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The bank waives collateral requirement for clients with positive listing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The bank requests the credit status every time it interacts with the customer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

12. How many days in arrears does the bank consider as positive listing?

a) 0 - 14 days in arrears  
b) 15 - 29 days in arrears  
c) 30 - 59 days in arrears  
d) 60 – 89 days in arrears  
e) 90 - 180 days in arrears  
f) 360 and above days in arrears

13. How many days in arrears does the bank consider as negative listing?

a) 0 - 14 days in arrears  
b) 15 - 29 days in arrears  
c) 30 - 59 days in arrears  
d) 60 – 89 days in arrears
e) 90 - 180 days in arrears

f) 360 and above days in arrears

**F CONSUMER DEFAULT INFORMATION**

<table>
<thead>
<tr>
<th></th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>The bank sends consumer default information to the bureau monthly.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Default occurs when the customer is 90 days overdue</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td>The bank updates the default information immediately the customers clears the overdue principal and interest</td>
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<tr>
<td>The bank lends to consumers with credit rating of more than 500 score only</td>
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<td>Past repayment record of client affects the future borrowings of a client</td>
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<td>The bank classifies the default information of a consumer into one of the several predetermined classification</td>
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<tr>
<td>The bank issues demand letters to clients before listing them as defaulters</td>
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</table>

a) The bank starts recovery mechanisms for loans and advances of loans that are 90 days past due.

   Yes (  )  No (  )

“Thank you for your time”
### Appendix 3: List of Commercial Banks

1. African Banking Corporation (ABC)
2. Bank of Baroda
3. Barclays Bank
4. Commercial Bank of Africa
5. Consolidated Bank
6. Cooperative Bank
7. Credit Bank
8. Diamond Trust Bank
9. Equity Bank Kenya Limited
10. Family Bank
11. First Community Bank
12. Guardian Bank
14. Jamii Bora Bank
15. Kenya Commercial Bank
17. National Industrial Credit Bank (NIC)
18. M'Orienatal Commercial Bank
19. Prime Bank
20. SBM Bank
21. Sidian Bank
22. Spire Bank
<table>
<thead>
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<th>Bank Name</th>
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<tr>
<td>23.</td>
<td>Stanbic Bank</td>
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<td>24.</td>
<td>Standard Chartered Bank</td>
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<tr>
<td>25.</td>
<td>Transnational Bank</td>
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