FACTORS AFFECTING NON-PERFORMING LOANS: A CASE STUDY OF COMMERCIAL BANK OF AFRICA – CBA (KENYA)

BY

NASIEKU NKURRENAH

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

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NASIEKU NKURRUNAH

A Project Report Submitted to the Chandaria School of Business in Partial Fulfillment of the Requirement for the Degree of Masters in Business Administration (MBA)

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STUDENT DECLARATION

I, the undersigned declare that this is my original work and that it has not been submitted to any other College, Institution or University other than the United States International University for academic purposes.

Signed: ___________________________  Date: ________________________________

Nkurrunah, Mary N. (ID. No: 631842)

This project has been presented for examination with the approval as the appointed supervisor.

Signed: ___________________________  Date: ________________________________

Dr. George Achoki

Signed: ___________________________  Date: ________________________________

Dean, Chandaria School of Business
ABSTRACT

The purpose of this study was to investigate the factors that affect non-performing loans at the Commercial Bank of Africa (Kenya). The study was guided by three research questions, namely; what are the macro-economic factors that affect non-performing loans at Commercial Bank of Africa (Kenya)? What institutional or bank-specific factors affect non-performing loans at Commercial Bank of Africa (Kenya)? What are some of the remedial practices that can be implemented to reduce the level of non-performing loans at Commercial Bank of Africa (Kenya)?

The study adopted a partly descriptive and a partly correlational research design. A partly descriptive and a partly correlational research design is preferable in that it permitted a description of the factors affecting non-performing loans while a correlational research design made it possible to determine how the factors correlate. The population of the study included 451 staff members currently working for CBA - Kenya. From this population a sample size of 122 individuals was derived and to these the data collection instrument, semi-structured questionnaire was administered.

It was found that the prevailing economic conditions were the major economic factor affecting the levels of NPLs. The proportion of the respondents who answered in favor of the economic conditions stood at 41.7% compared to 14.6% who felt that real GDP was the major factor affecting NPLs. On the bank-specific factors affecting NPLs, the highest proportion of the respondents 26% indicated that bank ownership was the major cause of NPLs compared to 10.4% who considered poor loan monitoring/follow-up as the major bank-specific cause of NPLs. The study also found that effective risk assessment was considered as the major remedial strategy of dealing with NPLs. According to the study findings 47.9% of the respondents indicated that effective risk assessment was the major remedial mechanism of dealing with NPLs while 6.3% felt that increased budgetary allocation for loan monitoring was the major remedial strategy of dealing with NPLs.

The study concluded by asserting that the macro-economic factors influence people’s loan repayment habits and as such affect whether people pay the loans that they obtain from the bank on time or not. The study contends that the bank-specific factors being internal to the banks and implicating the banks process and policies influence the NPLs more than macro-economic factors. These factors are within the control of the bank and
with sound policies and effective management; they can be reduced thereby leading to a reduction in the levels of NPLs in the banks’ credit portfolio. The study further asserts that while there are indeed several remedial measures, the threat of NPLs’ occurrence cannot be effectively addressed due to the intricacy of the process as well as the number of factors that affect the NPLs.

The study makes the following recommendations. First, there is need for the government to reduce the strains to the general economy in order not only to facilitate economic growth but also to enhance the minimization of the macro-economic factors that precipitate NPLs. Secondly, CBA (Kenya) as well as other banks operating in Kenya must endeavor to reduce the bank-specific factors that precipitate high levels of NPLs. Thirdly, banks must realize that high levels of NPLs pose a very serious threat not only to the bank but also to the entire financial system. Lastly, the stakeholders in the credit system including the banks and the government must implement policies that will facilitate the minimization of the macro-economic and bank-specific factors that precipitate NPLs. Future researchers should conduct more studies and provide more information on the issue of non-performing loans.
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DEDICATION

It is with great humility that I dedicate this work to my son Leshan Kelai who inspires me to be a better person and who remains my greatest blessing yet. May that seed of greatness planted in you grow beyond my wildest dreams.
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Problem

The role of banks to the contemporary world economy is unprecedented since banks are among the chief and largest contributors to any economy in the world. Financial institutions (FIs) and banks in particular are vital to any economy due to their ability to mobilize savings and to enhance capital flows to in the economy (Richard, 2011). The financial intermediary function performed by banks in any economy motivates investment and increase productivity (Hardy, 2006).

Certainly, without banks the global economy would come to an abrupt collapse mostly as banks are the principle financial intermediaries between depositors and creditors making business transactions feasible. Guy (2011) asserts that the banking industry still forms the principal basis for financial intermediation in most countries in the globe. Nonetheless, for banks to offer the fundamental services they must possess the funds with which to do so; and the provision of loans offers the most crucial means by which banks obtain their revenues (Guy, 2011). Certainly, the principle reason as to why banks provide financial intermediation is to enable them to maximize their profits and to provide value to the shareholders.

Apparently, lending is of fundamental importance to the banking industry as the loans that the banks give out form the primary sources of their revenues. In fact, it has been determined that loans provide between 50% and 75% of the revenues that banks earn (Karim, Chan and Hassan, 2010). Apart from the ability of loans to produce revenues, loans are also capable of attracting the principal portion of operating income to the bank thus keeping them operational (Karim, et al., 2010). Consequently, commercial banks perceive lending as a crucial function for fund utilization.

Since, loan advances is the most profitable venture by banks, the banks are always spoiling to lend as much as they can to obtain more revenues and profits. Nonetheless, loan advances albeit promising to a bank, are risky ventures that do not always provided the returns that are expected. The risk comes in the form of loan delinquency or bad loans, which essentially refers to the failure by creditors to settle the loans that had been
advanced to them. This kind of loans are considered non-performing which means that the issuing bank is incapable of benefiting from them since they cannot be recovered within the time of repayment that was stipulated at the time issuance (Onsarigo, et al., 2013).

According to Waweru and Kalani (2009), in their operation, banks and financial institutions in general do face a lot of risks some of which relate to market and operating risks while other relate to liquidity and legal rules. However, non-performing loans pose perhaps the greatest risk to banks since it is at the very heart of banks revenue sources and profits (Karim, et al., 2013). In fact, some of the major crises in the banking sector in the world including the Great Depressions in the US in the 1930s to the recent credit crunch in 2010 in the US that affected the rest of the world are somewhat linked to bad or non-performing loans (Hardy, 2006).

Collins and Wanjau (2011) contend that the financial crisis has been found to be precipitated by the percentage and quantity of non-performing loans. This has determined to be true for the developed as well as the developing economies. Certainly, studies indicate that the East Asia financial crises as well as those experienced in sub-Saharan Africa are caused by NPLs (Karim, et al., 2010). For example, non-performing loans made up to 75% of the asset portfolios of the banks that collapsed on Indonesia during the East Asian financial crises (Collins and Wanjau, 2011). Furthermore, the rise in the levels of non-performing loans precipitated the financial crisis experienced in much of the countries of sub-Saharan Africa in the 1990s (Onsarigo, et al., 2013).

Like the rest of the countries of the world, the banking industry in Kenya contributes substantially to the growth of the country’s economy (Onsarigo, et al., 2013). Collins and Wanjau (2011), elucidate, the banking system in Kenya is crucial to the country’s economy is composed of the Central Bank of Kenya, which is the main regulatory body, the Non-Bank Financial Institutions, the Commercial Banks and the Forex Bureaus. According to Waweru and Kalani (2009), forty-Five institutions made up Kenya’s banking sector as of 2008, of these, 43 institutions were commercial banks while the mortgage finance institution made up the rest.
The “Banking Act, under Cap 488 and Prudential Regulations” regulates the operations of the commercial banks in Kenya (Collins and Wanjau, 2011, p. 59). Of the 43 banking institutions in Kenya, 12 were foreign-owned while the rest comprising some 43 banks were owned locally and of these, the government had a significant share. Privately owned banks in Kenya as of 2008 numbered 28 (Collins and Wanjau, 2011).

Certainly, like the rest of the African countries and the world, Kenyan banks have had their share of problems with non-performing loans (Onsarigo, et al. 2013). Indeed, in the aftermath of 1997 and 2008, the banks in Kenya experienced a sharp decline due to enormous NPLs resulting from inappropriate lending to the real estates (Richard, 2011). In fact, concerns have emerged regarding the negative effect that non-performing loans have been having on the banking sector in Kenya and on the Kenyan economy in general (Collins and Wanjau, 2011).

However, the reports of the studies conducted between 2007 and 2008 indicated a decline in NPLs in Kenya (Onsarigo, et al., 2013). It was found that there was a 17.5% decline in NPLs between June 2007 and June 2008, from Ksh 70.7 billion to 58.3 billion, which was accredited to recoveries and write-offs (Onsarigo, et al., 2013). Nonetheless, while trends indicates a general decline in NPLs in Kenyan banks, the 2007 – 2008 post-election violence experienced in the country reversed the trend. There was a general increase in the level of NPLs by approximately Ksh 1 billion between December 2007 and June 2008 (from Ksh 57.2 billion to 58.3 billion) (Collins and Wanjau, 2011).

Generally, as Waweru and Kalani (2009), contend, the Kenyan economy has experienced a gradual decline over for a long time. This economic decline has affected the major sectors of the economy including the banking institutions or the commercial banks and other financial markets (Onsarigo, et al., 2013). The level of NPLs in 1998 stood at Ksh 80 billion and in 2001, it was estimated at 81.3 billion showing a steady upsurge (Waweru and Kalani, 2009). This trends in Kenya are indicative of the importance of the management of loans which ensures that there possibility of NPLs is reduced to the minimum. However, the management of loans is only feasible when it takes cognizance of the precipitating factors of NPLs (Guy, 2011).
1.2 Statement of the Problem

Non-performing loans offer the greatest risk to the banking industry not only in Kenya but globally as well (Onsarigo, et al., 2013). Given the fact that banks depend to the greatest extent on performing loans for their revenues, unmanaged or high levels of non-performing loans may precipitate the collapse of not only one bank but also the entire banking system and the economy (Waweru and Kalani, 2009). It is therefore, proper that the factors that affect or cause non-performing loans are conceptualized in order to define proper and responsive mechanisms of dealing with them.

It is shocking that while the impacts of non-performing loans in Kenya have attracted extensive academic attention, an assessment of the factors that precipitate them has received relatively little attention (Onsarigo, et al., 2013). However, the fact remains that identifying the factors that cause non-performing loans is key to the implementation of mechanisms that facilitate the avoidance of their occurrence. The identification of the underlying causes of non-performing loans is necessary for the minimization of the chances of occurrence of such bad loans in Kenyan banks (Collins and Wanjau, 2011). Furthermore, an assessment, of various mechanisms that have been implemented and are being implemented in order to address the problem of non-performing loans in Kenyan banks is vital, as this will enable conclusions to be drawn concerning their effectiveness. Little literature exists that has categorically assessed these areas of concern.

Many studies have examined the causes of non-performing loans in several countries around the world; however, little research has gone to the study of the causes of NPLS in Africa (Onsarigo, et al., 2013). In fact, research findings of the causes of NPLs in the developed countries have often been used to explain the situation in sub-Saharan African countries (Waweru and Kalani, 2009). The fact that there are also institutional factors that precipitate NPLs has also been largely ignored by literatures that focus on NPLs in African banks (Collins and Wanjau, 2011). In fact, findings in other economies are have also been used to explain bank-specific causes of NPLs (Onyia and Oleka, 2000). It is proper to assess whether the factors affecting non-performing loans are universal or specific to a country or an economy. Furthermore, there is lacking, a consensus in previous studies regarding what remedial mechanisms can be implemented to effectively address the issue of non-performing loans (Richard, 2013).
This study is crucial in that it will help abridge this knowledge gap and facilitate the
cognizance by managers of the causes of non-performing loans as well as the
effectiveness of the remedial strategies that have been implemented. The study will
therefore help bank managers make important, relevant and effective decisions regarding
the management of the bad loans. The study will also generate the desire among bank
managers on the vitality of their participation in policy making at both the macro level
and institutional level in relations to debt management. This study will act as a basic
source of information future researcher who would venture into the analysis of non-
performing loans.

1.3 Purpose of the Study

The purpose of this study was to investigate the factors that affect non-performing loans
at the Commercial Bank of Africa (Kenya).

1.4 Research Questions

1.4.1 What are the macro-economic factors that affect non-performing loans at
Commercial Bank of African (Kenya)?

1.4.2 What institutional or bank-specific factors affect non-performing loans at
Commercial Bank of Africa (Kenya)?

1.4.3 What are some of the remedial practices can be implemented to reduce the level of
non-performing loans at Commercial Bank of Africa (Kenya)?

1.5 Significance of the Study

According to Mugenda, A. G. and Mugenda, M. O. (1999), a study is conducted for a
certain predetermined reason without which there will be no need for conducting or
undertaking a study. Therefore, in deciding to conduct a study, a researcher must address
several important questions such as; why is the research important? What value will the
research add to literature and who will benefit from the research? The current study is
relevant. The study will be vital to many groups however; following three groups stand to
benefit from the study exceptionally.
1.5.1 The Commercial Bank of Africa (Kenya) and other Banks

This study will be highly relevant and important to the Commercial Bank of Kenya (CBA) and other banks in several ways. The study will identify main factors that affect non-performing loans hence create awareness upon the CBA management and the management of other banks of these factors. By creating awareness of the factors that affect non-performing loans, the study will thus inspire the banks to innovate ways of dealing with or avoiding non-performing loans. The study will also examine some of the mechanisms that have been implemented in order to deal with non-performing loans and evaluate their effectiveness. This will be of importance to the banks in that it will facilitate their cognizance of the effective from the ineffective mechanisms. By appreciating the findings of the study, the banks can then implement new or improve on the existing mechanisms to reduce the level of non-performing loans.

1.5.2 The Government and the Policymakers

The non-performing loans have grave negative impacts on banks if there are not properly managed. The failure that non-performing loans brings on banks leads to stagnation and even collapse of the national economy. This study will be crucial to governments and the policymakers in that it will not only create cognizance among the policymakers of the impact of non-performing loans on banks, but its effects on the national economy and consequently on national stability. By acquainting themselves with the discussions and findings of this study, the policymakers will be able to implement effective fiscal policies concerning credits and therefore prevent the occurrence of non-performing loans in the economy.

1.5.3 Academicians and Researchers

This study will be relevant to future researchers, as it will contribute literature vital for future research. Those who will be interested in doing research concerning non-performing loans will be able to build their literature base by reading this this study. Furthermore, the study will be important to future researchers as it may inspire them to carry out more studies to improve on this study or to verify its findings. By venturing into an area that is largely ignored by academicians, the study will be important in generating a refocus among scholars and researchers of the necessity for a conceptualization of factors affecting non-performing loans.
1.6 Scope of the Study

The study focused principally on non-performing loans and particularly on the macro-economic factors affecting non-performing loans; the institutional factors affecting non-performing loans; as well as the remedial mechanisms that have been implemented to manage non-performing loans. The researcher relied mostly on secondary sources of information not dating older than 10 years for information to satisfy the qualitative aspects of the study such as the literature review. For the quantitative data, the researcher conducted a survey study using semi-structured interview schedule. The field survey was conducted over a period of one week. The survey targeted the staff members of the Commercial Bank of Kenya located in within Nairobi.

1.7 Definition of Terms

Below are definitions of key terms that were used throughout the study. The definitions are provided in relation to how they were applied in this study.

1.7.1 Non-Performing Loans

Non-performing loans (NPLs) refer to the credit advances or loans whose payment has been defaulted upon by the borrower and therefore the issuing bank cannot derive a profit from (Richard, 2011). NPLs are loans against which the borrower has failed to pay within the stipulated time as governed by the laws of the country (Karim, et al., 2010).

1.7.2 Financial Intermediation

Financial intermediation is the process whereby the commercial banks or other financial institutions receive deposits and advance loans from and to their customers respectively and provide other auxiliary services to the clients (Allen and Santomero, 2007). It is also conceptualized as process where the banks and financial institutions act as an arbitrator between debtors and creditors while at the same time making profit (Gorton and Winton, 2005).

1.7.3 Real Gross Domestic Product (GDP)

Refers to the entirety of the value added in the economy over a given period normally annually or the total amount of incomes in a given national economy over a given period (Onyia and Oleka, 2000).
1.7.4 Insider Lending

Refers to a situation whereby banks of financial institutions lend money to their own staff members of managers (Babouček and Jančar, 2005).

1.8 Chapter Summary

The Chapter has introduced the study. The chapter has presented the background of the study and stated the problem that has inspired the study. The chapter has also highlighted the purpose of the study and outlined the research questions that guided the study. Chapter 1 has also provided the significance of the study, the scope of the study and defined the key terms that were used throughout the study.

Chapter 2 provides a review of literature with regard to the three research questions. Chapter 3 follows and describes the research methodology that was used in the survey study. Chapter 4 represents the findings from the survey using descriptive statistics including tables, pie charts and bar graphs. Chapter 5 provides the recap of the study including the summary of the findings, the discussions, the conclusion and the recommendations.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter reviews existing literature on the factors that affect non-performing loans. The literature review drew upon secondary materials that have been written around the research topic. The literature review mostly focused of literature that related to the three research questions namely; Macro-economic factors affecting non-performing loans; the institutional factors affecting non-performing loans; and the remedial mechanisms that have been implemented in various banks to deal with the problem of non-performing loans.

2.2 Non-Performing Loans

When banks are realizing on-time loan payments, the loans are said to be performing and the banks become profitable (Guy, 2011). In fact, there is empirical evidence that lending is the mainstay of the banking industry as the rents that the banks charge on the borrowed money is the main source of their revenues (Babouček and Jančar, 2005). Because loans and advances are the most profitable ventures for commercial banks, banks are always willing to provide more loans to borrowers despite the fact that this is a risky venture (Karim, et al., 2010). Certainly, most of the times banks fail to realize returns against the loans that they issue out because of defaults. Such loans that have not been paid over the stipulated time are said to be non-performing and are dangerous to the bank as they may cause the ultimate collapse of the bank, the banking industry and the entire economy (Beck, et al., 2006).

According to Fatemi and Fooladi (2006), non-performing loans are loans, which are unrecoverable within the time stipulated by the laws of the country or as agreed to by the bank and the borrower at the time of provision. As such, the possibility of obtaining income from such loans is uncertain. Non-performing loans has also been deemed as loans whose repayment period is more than 90 days. Collins and Wanjau (2011), explain that in Kenya non-performing loans are the money the bank or a financial institution has given to an individual or a firm that has not been settled for a period exceeding 90 days. Non-performing loans are also known as non-performing assets in the banking lingo.
The issue of non-performing loans has gained a lot of attention in many countries around the world especially since the financial crises of 2007 – 2008, as it was believed to be the main cause of failure of most banks during the crisis (Karim, et al., 2010).

In fact, non-performing loans are so crucial to the bank because they can be used to determine the banking industries’ stability and permanency as well as the profitability of the bank (Sinkey, 2007). This is because non-performing loans can reduce a bank’s capital resource rendering the bank unable to grow or develop its business and the result is the insolvency or liquidation of the bank (Babouček and Jančar, 2005). Non-performing loans are potential risks to the banking industry and the economy because they have the potential to reduce banks’ liquidity, cause credit expansion and permit the slump of the real sector (Babouček and Jančar, 2005). Furthermore, banks with high NPLs in their portfolio of investments will certainly realize a reduction in their revenue earnings (Bessis, 2006).

2.3 Macro-Economic Factors Affecting Non-Performing Loans

Various research undertakings have assessed the determinants of the quality of loans that banks issue out (Richard, 2011). In fact, according to Fatemi and Fooladi (2006), several studies conducted in the economies of the developed indicate that macroeconomic factors influence credit risk. Several factors have since been identified as being particularly crucial in determining the NPLs. These include economic depression (inflation), the exchange rates, the Gross Domestic Product, the unemployment levels, as well as loan performance and real interest rates (Karim, et al., 2010).

2.3.1 Economic Depressions

According to Fatemi and Fooladi (2006), there is an intricate link between the banking stability and the business cycle. In fact, as macroeconomic stability has been found to be inexorably linked to banking soundness (Richard, 2011). In this sense studies as Karim, et al. (2010), contend, economic expansion is indicated by lower levels of non-performing loans by the commercial banks. When the economy is expanding, both the consumers and business firms realize higher income and revenues respectively and are therefore more likely to service or offset the pending debts (Guy, 2011).
Consequently, a contraction in the number or levels of NPLs is realized by the banks. Babouček and Jančar (2005) observe that during the expansion stage or the boom period of the economy, banks can extend credit to lower-quality debtors without many reservations. Beck (2006) contends that the economic activity not only in a country but globally has a sway on the levels of non-performing loans. Hence, a slump in global economy remains a risk to banks as leads to NPLs.

Beck, Jakubik and Piloiu (2013), assert that economic depressions or national economic recession, which affect the exchange rates cause a surge in the levels of non-performing loans. This was particularly found to be true in countries where banks that provide loans in foreign currencies (Richard, 2013). Nonetheless, according to a study conducted in 2013 by Beck, et al., (2013), it was found that the cutting interest rates offsets the surge in NPLs albeit marginally since because lower fiscal policies do not necessarily turn to lending interest rates in countries experiencing inflation.

Higher inflation rates resulting from economic depressions lead to a surge in the precariousness and unpredictability of business profits (Karim, et al., 2010). This is linked to an increase in the cost of goods and services that form the price index which positively influences peoples’ willingness to take risks and there likeliness to default on loan repayment (Beck, et al. 2013).

2.3.2 Exchange Rates

According Khemraj and Pasha (2009), a correlational analysis between exchange rate and non-performing loans produce a significant positive result. This is indicative of the fact that a change in the former produces a change in the latter. According to Brownbrigde (2007) an appreciation or a depreciation of exchange rates influences the revenue earnings for export-oriented companies. A study conducted by Khemraj and Pasha (2009), in Guyana indicated that an appreciation in the exchange rates may curtail the prospects of growth for those firms which are export oriented and since this results in the contraction of the economy, it causes a direct influence on the performance of loans.

Furthermore, a depreciation of the local currency leads to an increase in the exchange rate and this has an effect on the local economy by causing a surge in the cost of production by local firms and makes their products expensive in the foreign markets (Farhan, Sattar,
Chaudhry and Khalil, 2012). Consequently, the exported-oriented firms earn little foreign exchange and the economy slumps as the GDP also goes down. There is reduction in household earnings and the people’s ability to service the loans that they have is hindered. The result of an appreciation of the local exchange rate is a growth in the NPLs (Beck, et al. 2013).

Changes in the exchange rates have different implications for local firms and citizens. For instance, exchange rates adversely affect the servicing of loans by export-oriented firms leading to a surge in NPLs in instances of unfavorable exchange rates (Farhan, et al., 2012). The exchange rates can also precipitate positive results with regard to the servicing of loans by individuals or firms that borrowed in foreign currencies when the local currency appreciates or the foreign currency depreciates (Farhan, et al., 2012).

The opposite is the case for depreciation in the exchanges rate because the revenue earnings for the export-oriented firms increase widening their profit margins. The increase in revenue earnings and profit margins permits firms to service their loans in good time and therefore the levels of NPLs is reduced markedly (Richard, 2013). Furthermore, as Guy (2010) explains the depreciation the interest increases the foreign earning for local export-oriented firms, the firms are able to provide better working conditions for their employees including paying them well. Individuals are therefore able to service their loans as earnings improve.

2.3.3 Gross Domestic Product (GDP)

According to Beck, et al. (2013), the real Gross Domestic Product is a key factor influencing the NPL ratios. Empirical findings have indicated that between the real GDP and Non-performing loans, there exists a significant positive correlation (Murumba, 2013). Bessis (2006) points out that studies conducted in Spanish banks found that the GDP growth, lenient terms of credit and high interest rates are determining factors of non-performing loans. Studies have therefore indicated that as the as the economy lumps the gross national product (GDP) goes down and consequently the levels of non-performing loans surge since borrowers more likely to fail to service the loans that they have been provided with (Babouček and Jančar, 2005).
An economic expansion is inimical to a surge in financial distress as it permits increased income and revenues (Messai and Jouini, 2013). Consequently, an increase in real GDP growth is realized as employment levels also surge the result of these is a decrease in NPLs (Murumba, 2013). This is because as Messai and Jouini (2013), assert, the growth in real GDP enhances the borrowers’ repayment ability leading to a reduction in the level of bad debts. Consequently, a negative growth in real GDP due to economic downturn apparently precipitates an increase in NPLs (Beck, et al., 2013).

However, the association between the real GDP and non-performing loans is still a subject of debate considering that there are findings, which have found that the association is insignificant, or uncertain (Onyia and Oleka, 2000). For instance, Murumba (2013) observes that in a study conducted by Khemja and Pasha (2009) in the Guyanese banking sector between 1994 and 2004, it was found that an inverse and instantaneous association existed between the two variables.

These findings are indeed alarming at the backdrop of the arguments in support of a relation between the real GDP and non-performing loans (Gorton and Winton, 2005). A problem emerges considering that if the findings by Khemja and Pasha are taken to be authentic and interpreted, then it implies that strong economic performance precipitates lower non-performing loans (Murumba, 2013). On the other hand, the slump of the real GDP leads to an increase in the levels of NPLs held by banks (Babouček and Jančar, 2005).

2.3.4 Unemployment

When able-bodied individuals are without work then they are said to be unemployed (Murumba, 2013). This people must have looked for jobs for over four weeks but could not get any employment opportunity. The rate of unemployment is the quantification of the prevalence of people not to get employment and is a figure derived by the division of the entirety of people without jobs and those who are employed (Guy, 2010). The levels of unemployment are normally higher during periods of economic recession as evident in several countries that have witnessed economic slump. According to Murumba (2013) for instance, the unemployment levels Greece increased markedly between April 2011 and April 2013 from 23.1% to 26.9% as the country underwent through economic recession at the same time the levels of NPLs also rose to the upwards of €66 billion.
Unemployment relates positively with the NPL (Murumba, 2013). In an economy that is doing so bad or is in depression the unemployment levels surge as the loans defaults increase. According to Gorton and Winton (2005), the unemployed especially those who had worked before but have retired or have been laid off or fired are unable to pay back loans that their might have acquired since they do not have the salary or wages with which to settle their loans. Nkusu (2011) explains that unemployment reduces the level of income that individuals obtain thereby increasing their debt burden.

Loss of job or increased unemployment makes it hard for the affected individuals with outstanding loans to service the loans. Apparently, this leads to a surge in the level of non-performing loans for banks (Nkusu, 2011). Furthermore, unemployment reduces the purchasing power parity for individuals in an economy thereby making it difficult for people to purchase goods and services offered by firms (Murumba, 2013). Firms are affected by the unemployment, as they are unable to sell their products and services and this causes a sharp decline in the revenue earnings of firms. Consequently, the firms in the process become unable to service their debts leading to a proliferation in the levels of non-performing loans in the banks (Guy, 2011).

Unemployment positively influences the increase in NPLs because hinders cash flow streams for people thereby undercutting the ability to honor loan obligations (Lu, Thangavelu and Hu (2011). Furthermore, business firms also lose in situations of unemployment due to job layoffs that precipitate reduced output and this increases the firm’s propensity to default on loan repayment leading to NPLs increase for banks (Lu, et al., 2011).

2.4 Institutional or Bank-specific Factors Affecting Non-Performing Loans

Macroeconomic factors are forces emanating from the external environment. According to Babouček and Jančar (2005), they are exogenous factors to the banks that influence NPLs. However, Richard (2011) observes that there are endogenous forces inherent in the banks institutional processes that influence the levels of NPLs. These internal factors relate to the structure and the internal policies of specific or individual banks (Sinkey 2007).


2.4.1 Bank Ownership

The ownership of a bank is a fundamental determinant of that banks behavior and lending policies. According to Richard (2011), ownership of the bank influences the risk taking behavior of that bank which further determines the level of non-performing loans that a bank would have. It has been found that state owned banks are more disposed to engage in risky credit behaviors and therefore are more prone to NPLs (Guy, 2011).

This is because as the property of the state, state owned banks are often influenced by the government of the day to facilitate economic development (Babouček and Jančar, 2005). Thus, these banks are likely to offer credit to high-risk individuals or groups (most likely to default) and to fund riskier projects. Furthermore, these banks give a more promising credit terms to small and medium firms to facilitate the governments’ need to fast-track economic development in the country. The result of this uninformed and politically inspired risk-taking facilitates the emergence of higher NPLs (Murumba, 2013).

Richard (2011) contends that the NPLs accumulation by state owned banks is much higher as compared to that of privately owned banks indicating that there is an association between bank ownership and the non-performing loans. Nkusu (2011) elucidates that the higher accumulation of NPLs is due to the fact that state owned banks also have a relatively weak recovery capacity vis-à-vis the banks that are privately owned. Certainly, the level of NPLs is seen to be lower in banks that are jointly owned by the state and private individuals or entities (Onyia and Oleka, 2000). Murumba (2013) asserts that the private-state interaction is influential in positively determining NPLs levels.

2.4.2 Insider Lending

It is the accepted code of conduct in the banking industry in most jurisdictions around the world that when banks lend money to their clients, they give them the same terms and conditions as they normally loan to other borrowers (Nkusu, 2011). Thus, similar terms including interest rates, credit evaluation criteria and repayment terms applicable to other borrowers should apply to the staff as well (Messai and Jouini, 2013). These loans emerge out of political pressure, the endeavor by the management to please the bank’s employees, ownership of the bank and under-capitalization (Murumba, 2013).
Insider lending has the potential to bring about the collapse of the bank (Nkusu, 2011). However, managers often defy the set regulations and offer better credit terms to their staff (Sinkey, 2007). Consequently, insider lending has been identified to be an influential factor determining the level of non-performing loans for many banks (Brownbridge, 2007). Richard (2011) observes that insider loans are one of the key reasons for the failure of many banks. The main reason why insider loans fails is because of other than being issued under different terms than those given to outsiders; loans obtained from insider lending loans are also invested in speculative projects with high propensity for failure such as real estate development (Messai and Jouini, 2013). Besides, the loans are often invested in huge extended projects that are less likely to generate returns in the short-term.

Brownbrigde (2007) observes that the failure of several banks in Kenya has been due to insider lending. The Kenyan banks have been generous in extending large loans to bank’s shareholders, directors and managers, loans which whose payment period have been breached leading to the rise in NPLs (Brownbridge, 2007). These loans have been invested in highly speculative ventures such as real estate, which do not earn returns on investments first enough leading to loan defaults. Brownbridge (2007), contends that the almost 90% of International Finance company’s loan portfolio had been given to a government minister. At the same time it was found that up to 50% of Pan African Bank’s (PAB) loan portfolio had been given to its chairman (Brownbridge, 2007). Other banks in Kenya including the Trade Bank became insolvent after having issued large loans to companies that were largely associated with some of its shareholders (Onsarigo, et al., 2013).

2.4.3 Lenient Credit Terms

The terms of credit should be as strict as possible to ensure that the borrowers’ chances of defaulting are reduced as much as possible (Warue, 2013). According to Lu, et al. (2011), when the banks have a practice of offering strict credit terms and abiding by them, the chances of default on loan payment are reduced to a very great degree. The terms of credit are the conditions that the banks dictate to a potential borrower concerning monthly and total amount of credit, the possible maximum repayment time and the rate of late repayment (Brownbridge, 2007).
It is important for banks not to be lenient or compassionate when setting and abiding by the terms of credit. Studies indicate that when banks and their managers are too lenient in setting credit terms they facilitate the propensity of the borrowers to default on payment (Sinkey, 2007). In fact, when the credits terms are too lenient, the propensity of customers to take loan is much higher and this may result in excessive lending which is an antecedent for NPLs (Khemraj and Pasha, 2009).

There are several elements, which influence the banks’ leniency regarding the issuance terms of credit (Guy, 2010). Studies have indicated that a banks ownership determines to a great extent how it gives out loans to individuals and companies (Nkusu (2011). Therefore, publicly owned banks are more lenient in providing loans to individuals, groups and banks, since the banks have to facilitate the governments’ development plans (Richard, 2013). However, privately owned banks, which are driven by the profit rather than the national development agenda, are more prone to providing rather strict terms of credit to borrowers. Consequently, loans that are given under lenient credit terms are more likely to be defaulted upon than loans that are provided under very strict terms (Warue, 2013). In essence, the levels of NPLs for loans given under lenient terms of credit are greater than those given under stricter terms of credit.

Furthermore, research has shown that the amount of control given to the directors and managers influence banks leniency in setting the terms of credit (Khemraj and Pasha, 2009). Accordingly, it has been found through studies that in banks where the managers and directors have a lot of control, lenient terms of credit are attached to insider borrowing. Therefore, other these kinds of loans are offered under terms that do not accrue real benefit to the bank but rather to the staff members who borrow internally (Messai and Jouini, 2013). Therefore, the propensity of loans offered under lenient terms to become non-performing loans through default by borrowers is very real.

2.4.4 High Interest Rates

Interest rates are the rent that the borrowers pay on money that they borrow from the bank or a financial institution (Collins and Wanjau, 2011). While standard practiced in a liberalized economy is to let the market forces dictate the interest rates, banks have intervened to set the interest rates citing several reasons (Onsarigo, et al., 2013). According to Messai and Jouini (2013), interest rates influence the level of NPLs
especially in the case floating interest rates. A high interest rate means that the customer will pay more on top of the money they borrow as the banks gain more from the money they loan to clients.

As Collins and Wanjua (2011), observe, high interest rates makes it hard for the borrowers to services their loans, which means that an increase in the levels of NPLs is the result. For instance, the increase of high interest rates in Kenya before the 2007 and 2013 elections have been suggested to having been the cause of the rise in bad loans at this period as the borrowers became hard-pressed to service the loans (Onsarigo, et al., 2013). Data from the Central Bank of Kenya are indicative of the rise of the value of NPLs in March to Ksh 70 billion as the government and private sector spending subsided due to the electioneering period a 14.1% increase from the Ksh 61.6 billion NPLs realized in 2012 (Onsarigo, et al., 2013).

Research has shown that there exists an association between the occurrence of NPLs and the level of rates that banks charge on loans (Sinkey 2007). Banks placing higher interest rates on the loans that they issues have been found to experience a high level of NPLs as compared to those that charge relatively lower rates. According to Beck, et al., (2013), a surge in lending interest rates has a direct correlation with the increase in the level of NPLs. In fact, if the lending rates in Kenya is anything to go by, then it is perceptible the reason why the value of NPLs held by Kenyan banks continue to rise.

It is observable that the banks in Kenya have hiked the amount of interest rates that they charge on loans. According to Onsarigo, et al., (2013), the current lending rates in Kenya are at their highest at 16.96 taking into account that the Central Bank Rate is 8.5. This offers an explanation as to why the level of Non-performing loans in the country continues to rise considering the positive correlation between high interest rates and non-performing loans observed by Khemraj and Pasha (2009).

2.5 Remedial Mechanisms of Dealing with Non-Performing Loans

The impact of non-performing loans on any bank or economy can be devastating, it is therefore important that non-performing loans are controlled to ensure that the banks remain functional and profitable (Guy, 2011). Proper credit management is necessary to prevent banks from taking unnecessary and excessive risks that may lead to the
accumulation of NPLS (Brownbrigde, 2007). Therefore, it is apparent that proper control and management of non-performing loans has positive results to the banks, firms and even to the general economy. Miscarriages in the management of loans naturally lead to a surge in the levels of non-performing loans (Richard, 2013). Following is an assessment of literature on the mechanisms that can be implemented to deal with NPLs.

2.5.1 Reduction of Interest Rates

Several studies have indicated that the reduction of interest rates has been used as a strategy by several banks to address the issue of non-performing loans (Khemraj and Pasha, 2009). These follows perhaps from the realization of that higher interests rates is one of the main causes of loan defaults by borrowers (Brownbrigde, 2007). According to Babouček and Jančar (2005), some banks have especially applied this strategy during times of depressions when borrowers are more likely to default loan payments. By reducing interest rates the banks are also able to allow their customers to return the money that they borrowed as the bank makes some little profit. According to Messai and Jouini (2013), the reduction of interest rates on loan borrowed have been crucial to banks in making limited profit in situations where they would have made great losses.

Consequently, the levels of loan servicing have often increased whenever such measures are employed, loans that would not have been serviced and would have accumulated. Lu et al. (2011), observes that some banks have often adopted to the prevailing economic situations by allowing borrowers to pay relatively little interests at times of economic contraction and to pay the normal rates under the credit terms once the economy improves. While this strategy have led to the lengthening of the repayment period it has actually encouraged the servicing of loans at times when borrowers would have defaulted (Lu, et al., 2011).

The reduction of interest rates has been extended by banks to groups that are most likely to default or those considered as credit risky. Studies have shown that this has had a positive effect on the NPLs by lowering their levels (Beck, et al., 2013). However, Brownbridge (2007), contends that the reduction of interest rates by banks is sometimes forward looking is implemented to forestall future defaults. This practice is pinned on the logic that high interest rates are detrimental to the economy due to the borrowers’ propensity to default under such conditions (Bessiss, 2006). Hence, by reducing the interest rates, the banks facilitate economic growth and the payment of loans. This has a general effect of reducing the levels of NPLs held by Banks (Brownbridge, 2007).
2.5.2 Enhancing Management and Risk Assessment

The benefits of risk management are currently being enjoyed by several banks around the world that have implemented strategies of dealing with risks relating to loans (Onsarigo, *et al.* 2013). For instance, according to Warue (2013), in Kenya in 2003, the Cooperative Bank of Kenya realized as a pre-tax profit of Ksh 180.5 million, which was a 70% upswing from the Ksh 104.9 million realized in the previous year. According to Warue (2013), this profitability was largely attributable to a sound risk assessment for loan advances as well as an effective credit recovery mechanism.

This realization by the Cooperative Bank of Kenya of the importance of risk management is easy to fathom given that studies have indicated that inadequacies in risk assessment procedures by banks coupled with the ineffective credit management have been identified as being among the leading causes of NPLs and bank failures (Farhan, *et al.* 2012). Guy (2010), contends that credit assessment that banks have used include the assessment not only of client’s credit worthiness but the viability as well of the projects in which the funds are being requested for. It is apparent that banks have often refused to advance loans to borrowers who want to venture in businesses that they have no or little experience in (Onyia and Oleka, 2000).

Loan officials are at the center of determining the credit worthiness of potential borrowers and extend loans to borrowers. Therefore, as part of the risk management strategy, different banks have employed different strategies to ensure that the loan officials have sufficient knowledge of managing the associated risks (Brownbridge, 2007). Several banks are providing there loan officials secondary training to ensure that they are well acquainted with the risks that are associated with loans especially the NPLs (Richard, 2013). Beck, *et al.*, (2013), observe that banks have used such risk assessment criteria as specific limits and ration to better deal with the risks posed by non-performing loans.

2.5.3 Close Monitoring of Borrowers

The number of banks that lose their money because they lack an effecting mechanism of monitoring their borrowers is unprecedented (Warue, 2013). Lack of proper monitoring of how the funds acquired through loans has led to situations where such funds are not utilized well or they are invested in high-speculative ventures having little ability for
generating funds in good time making borrowers incapable of servicing the loans (Karim, et al., 2013).

In these situations, the loans become bad debt, which affect the issuing bank. Emerging from this trend therefore is the need to ensure that the loans are utilized promisingly through a close and effective monitoring of borrowers (Farhan, et al. 2012). In fact, some studies suggest that ineffective monitoring mechanism for borrowers has a positive association with the accumulation of NPLs (Babouček and Jančar, 2005).

Banks have implemented the monitoring of loan utilization by borrowers not only to see to it that the funds are put to proper use, but also to ensure that they are ready to deal effectively with any issue arising. In monitoring the loans, the banks have utilized contents of loan files to screen loans (Richard, 2011). Through an effective monitoring mechanism, banks are able to identify delinquent borrowers and effectively determine how to deal with these groups of borrowers (Onyia and Oleka, 2000).

Banks have also implemented regular ways of monitoring the quality of loans and implemented early warning systems that enable alert and enable bank managers to avoid potential stress (Babouček and Jančar, 2005). Consequently, banks have realized the need to accord their borrowers proper attention so that loan performance can be ensured. This facilitates repayment, as borrowers are more likely to pay since they consider themselves as obtaining proper attention from the bank (Richard, 2012).

The need for continued for monitoring of the borrowers is to accord banks means to assess whether the reasons for advancing the loans still hold and to confirm that the money is being used for the intended purpose (Fatemi and Fooladi, 2006). Furthermore, close monitoring of the borrower gives the bank an opportunity to assess the borrower’s character, to evaluate the borrower’s ability to pay the loan, the value of the collateral against the prevailing market conditions (Farhan, et al. 2013).

2.6 Chapter Summary

Chapter 2 has provided a review of existing literature regarding the topic of study and particular in relation with the three research questions. The review therefore assessed literature concerning non-performing loans and specifically those relating to three research questions namely; the macro-economic factors affecting non-performing loans;
the institutional factors affecting non-performing loans and the remedial mechanisms of dealing with non-performing loans. The next chapter provides the research methodology that was used in the study.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction
This chapter discusses the research design that was employed in this study. It also describes the population and sampling design, data collection methods, research procedures and data analysis methods that was used in this study.

3.2 Research Design
Research design identifies the techniques that are employed in a study. Mugenda, A. G. and Mugenda, M. O. (1999) contend that the research design specifies the processes and methods that a researcher employs in the collection and analysis of data and as such suggests the framework for the study. A research design goes even further and elucidates in the techniques that are preferred by the researcher in a bid to determine the necessary information. As such, the research design identifies the sampling method and size as well as the method of data analysis (Cooper and Schindler, 2003).

The research design that was employed in this study was a partly descriptive and a partly correlational research design. A partly descriptive and a partly correlational research design is preferable in that it permitted a description of the factors affecting non-performing loans while a correlational research design made it possible to determine how the factors correlate.

3.3 Population and Sampling Design

3.3.1 Population
Population is the entirety of the individuals, items, events or objectives, which possess some unique characteristics that the author is interested in studying (Mugenda, A. G. and Mugenda, M. O., 1999). Sounders, et al., (2009) contend that it is from the population that the researcher draws a statistical sample for the survey. A population can also be conceptualized as the entirety of collected units upon which the study conclusions are drawn.

The population for this study included the managers and the staff of the Commercial Bank of Africa (Kenya) operating within Nairobi, Kenya. This population possessed the
relevant information that the research sought to assess. The population size was 451 individuals working with the CBA Kenya in different capacities. Table 4.1 is indicative of the sample size distributed.

3.3.2 Sampling Design

3.3.2.1 Sampling Frame

According to Cooper and Schindler (2001) define the sampling frame as an assortment of events that provide the sample. The sampling frame contains the names of individuals, items or objects that can be sampled (Mugenda, A. G. and Mugenda, M. O., 1999). For this study, the sampling frame comprised a list of registered customers, junior staff and managers of Commercial Bank of Kenya in Nairobi. The list was obtained from the human resource and sales departments of the Commercial Bank of Kenya.

3.3.2.2 Sampling Technique

The parameters of the population define the sampling process. A simple random sampling was used to determine the participants in the survey. Sampling process was crucial in this study, as it gave every person and equal chance of participating in the study. The research randomly approached and issue the research instrument or the semi-structured questionnaires to potential participants.

3.3.2.3 Sample Size

According to Adams and Schvaneveldt (2007), a sample size was conceptualized as the totality of observations utilized to calculate or determine estimates from a population. For this study, the sample size included 96 individuals identified from the pollution determined through the formula developed by Adams and Schvaneveldt (2007) indicated below at a confidence level of 99 percent and a response distribution of 50. A table indicating sample size distribution was also provided.

\[
\text{Sample Size} = \frac{N}{1 + \left(\frac{N}{P}\right)} \\
(\text{Where } N \text{ is the population})
\]
Table 3.1: Sample Size Distribution

<table>
<thead>
<tr>
<th>Population</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Officer</td>
<td>121</td>
</tr>
<tr>
<td>Credit Analyst</td>
<td>89</td>
</tr>
<tr>
<td>Loan Recovery Officer</td>
<td>101</td>
</tr>
<tr>
<td>Loan Monitoring Officer</td>
<td>120</td>
</tr>
<tr>
<td>Credit Director</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>451</td>
</tr>
</tbody>
</table>

3.4 Data Collection Methods

The study employed the use of semi-structured interview schedules to obtain responses from the respondents. The use of semi-structured interview schedule is flexible and inexpensive method that permitted the realization of a higher response rate. The researcher then administered the research instrument to the respondents in order to illicit responses.

The semi-structured questionnaires was structured so that to include the three research questions. The instrument comprised of four parts, the first part assessed the respondents’ biographical information while the other three parts related to the three research questions; the macro-economic factors affecting non-performing loans; the institutional factors affecting non-performing loans; and the remedial mechanisms of dealing with non-performing loans. A use of a Likert scale semi-structured questionnaires permitted and made feasible the collection of data form respondents that could be analyzed statistically.

3.5 Research Procedures

According to Mugenda, A. G. and Mugenda, M. O. (1999) a research procedure can be construed as the processes that a researcher undertakes in the process of conducting the research. This facilitates the realization of the validity and applicability of the research findings. In describing the research procedures, the researcher categorically describe the steps that was taken during the research including the pilot study (Cooper and Schindler, 2001). The researcher also provides an account of the subject scheduling, and data collection methods.
In this research, after identifying a sizeable sample size, the researcher developed the research instrument that was used in the actual study. A pilot study was conducted on a fraction of the sample population in order to determine the reliability and suitability of the instrument. The feedback of the pilot study was used to improve the data collection instrument. The researcher endeavored to ascertain that the research instrument was as short and concise as possible while remaining relevant in order to prevent respondent fatigue or collection of redundant data and to obtain relevant responses.

During the actual survey study, the researcher randomly issued out the semi-structured interview schedule to eligible respondents. The use of the semi-structured interview schedule was to ensure that the data collection process is made as convenient as possible to the respondents. This further ensured a higher response rate and to avoid extemporaneous responses. The data collection was over a period of one week.

3.6 Data Analysis Methods
A qualitative method of analyzing data was employed. To ease data analysis, the semi-structured interview schedule was coded with respect to the variables that the research examined. The presentation and analysis of the finding was facilitated by transforming the raw data from the survey into tables, figures and frequency distribution tables as well as percentages. The correlation analysis was done to help make sense of the data. The Statistical Package for Social Sciences (SPSS) was used to analyze the data.

3.7 Chapter Summary
Chapter 3 has provided the research methodology that was used in the study. The Chapter has indicated the research design used and identified the population and the sample population that was assessed in the survey. The chapter also defined the data collection method that was used as well as the research procedure and the data analysis method that was used. The next chapter, Chapter 4 presents the survey findings and provides the correlation analysis between and among the variables.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

Chapter 4 presents the research results and findings of the study. The chapter employs the use of percentages, tables and bar graphs to present the findings that were obtained during the field survey. The chapter also presents the correlation analysis of the factors. The response rate for the study was 79%, a response rate that was highly valid.

Response Rate = \( \frac{\text{Number of Surveys Completed}}{\text{Number of People Contacted}} \)

\[ = \frac{96}{122} \times 100 \]

\[ = 0.787 \times 100 \]

\[ = 79\% \]

4.2 General Information

4.2.2 Classification of Respondents by Position in the Bank

Figure 4.1 shows the results that were obtained when the respondents were asked to indicate their position in the Bank. Eleven respondents (11.5%) indicated that they were loan officers while 32 respondents (33.3%) indicated that they were credit analysts. Twenty-four respondents (25%) indicated that they were loan recovery officers and 17 respondents (17.7%) and 12 respondents (12.5%) indicated that they were loan monitoring officers and credit directors respectively.

![Figure 4.1: Classification of Respondents by Position in the Bank](image-url)
4.2.4 Respondents’ Years of Experience in the Credit Process

Table 4.1 shows the findings when the respondents were asked to indicate their level experience in the bank’s credit process. Nine-point-four percent of the respondents (n = 9) indicated that they have less than a year experience while 44.8% (n = 43) indicated that they had an experience of between 1 and 5 years. Twenty-nine-point two percent of the respondents (n = 28) indicated that they had an experience in the bank’s credit process of between 6 and 10 years. The rest of the respondents making up ten-point-four percent (n = 10) and 6.3% (n = 6) of the respondents indicated that they had an experience of between 11 and 15 years and over 15 years respectively.

<table>
<thead>
<tr>
<th>Frequency (F)</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less Than A Year</td>
<td>9</td>
</tr>
<tr>
<td>1 - 5 Years</td>
<td>43</td>
</tr>
<tr>
<td>6 - 10 Years</td>
<td>28</td>
</tr>
<tr>
<td>11 - 15 Years</td>
<td>10</td>
</tr>
<tr>
<td>Over 15 Years</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>96</td>
</tr>
</tbody>
</table>

4.2.5 Bank Ownership

The respondents were asked to indicate the ownership of the bank. Figure 4.2 indicative of the responses that were obtained. Twenty-three respondents (24%) indicate that they thought the bank was privately owned while 46 respondents (47%) indicated that the bank was privately owned. The rest of the respondents, 26 in number (27%) indicated that the bank was both privately and publicly owned.
4.2.5 Presence of NPLs in Bank’s Portfolio

Figure 4.3 represents the results when the respondents were asked to indicate whether there was non-performing loans in their bank’s credit portfolio. Thirty-six-point-five percent of the respondents (n = 35) indicated that they were neutral to the question. However, 52.1% of the respondents (n = 50) and 11.5% (n = 11) indicated that they agreed and strongly agreed respectively that there were NPLs in their bank’s credit portfolio.
4.3 Macro-Economic Factors Affecting Non-Performing Loans

The researcher also moved to obtain relevant data with regard to the first research objective. Following is the presentation of the findings that were obtained.

4.3.1 Macro-Economic Factors Affecting NPLs

The researcher had asked the respondents to indicate the macro-economic factors that they thought contributed to NPLs. Forty-one-point-seven percent of the respondents (n = 40) indicated that the prevailing economic conditions were the macro-economic factors affecting NPLs while 22.9% of the respondents (n = 22) picked the interest rates as the macro-economic factor affecting NPLS. Some of the respondents comprising of 14.6% (n = 14) and 20.8% (n = 20) indicated that the Real GDP and the levels of unemployment respectively were the macro-economic factors affecting NPLs. Table 4.2 is indicative of these findings.

Table 4.2: Macro-Economic Factors Affecting NPLs

<table>
<thead>
<tr>
<th>Macro-Economic Factors</th>
<th>Frequency (F)</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prevailing Economic Conditions</td>
<td>40</td>
<td>41.7</td>
</tr>
<tr>
<td>Interest Rates</td>
<td>22</td>
<td>22.9</td>
</tr>
<tr>
<td>The Level of Unemployment</td>
<td>20</td>
<td>20.8</td>
</tr>
<tr>
<td>The Real GDP</td>
<td>14</td>
<td>14.6</td>
</tr>
<tr>
<td>Total</td>
<td>96</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.3.2 Influence of Exchange Rates on NPLS

When the respondents were asked whether they agreed that the exchange rates influence NPLs, the following results were obtained. Thirty-three respondents (34%) strongly agreed that exchange rates influenced NPLs. Forty-seven respondents (49%) indicated that they agreed that exchange rates influenced NPLs while the rest of the respondents, 16 in number (17%) indicated that they were neutral.
Figure 4.4: Influence of Exchange Rates on NPLS

4.3.3 Economic Conditions Affect NPLs

Table 4.3 is indicative of the results that were obtained when the respondents were asked whether they agreed that economic conditions affected NPLs. Thirty-one-point-three percent of the respondents \(n = 30\) indicated that they strongly agreed that economic conditions affected NPLs. Another group of respondents comprising of 55.2\% of the respondents indicated that they agreed that economic conditions affected NPLs. However, 6.3\%v of the respondents \(n = 6\) indicated that they disagreed that economic conditions affected the level of Non-performing loans.

Table 4.3: Economic Conditions Affect NPLs

<table>
<thead>
<tr>
<th></th>
<th>Frequency (F)</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>30</td>
<td>31.3</td>
</tr>
<tr>
<td>Agree</td>
<td>53</td>
<td>55.2</td>
</tr>
<tr>
<td>Neutral</td>
<td>7</td>
<td>7.3</td>
</tr>
<tr>
<td>Disagree</td>
<td>6</td>
<td>6.3</td>
</tr>
<tr>
<td>Total</td>
<td>96</td>
<td>100.0</td>
</tr>
</tbody>
</table>
4.3.4 Real GDP Affects NPLs

Figure 4.5 shows the results that were found when the respondents were asked whether they agreed that the real GDP affected NPLs. Twelve respondents (12.5%) indicated that they disagreed that non-performing loans affected NPLs while 21 respondents (n = 21.9%) remained neutral. Twenty-six respondents (25%) and 38 (39.6%) agreed and strongly agreed respectively that Real GDP affected non-performing loans.

![Figure 4.5: Real GDP Affects NPLs](image)

4.3.5 High Unemployment Rates Lead to High NPLs

Table 4.4: High Unemployment Rates Lead to High NPLs

<table>
<thead>
<tr>
<th></th>
<th>Frequency (F)</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>52</td>
<td>54.2</td>
</tr>
<tr>
<td>Agree</td>
<td>39</td>
<td>40.6</td>
</tr>
<tr>
<td>Neutral</td>
<td>1</td>
<td>1.0</td>
</tr>
<tr>
<td>Disagree</td>
<td>4</td>
<td>4.2</td>
</tr>
<tr>
<td>Total</td>
<td>96</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Table 4.4 shows the results that were realized when the respondents were asked to indicate whether they agreed that high unemployment rate led to high levels of NPLs.
Fifty-two respondents (54.2%) and 39 respondents (40.6%) indicated that they strongly agreed and agreed respectively that high unemployment rates led to high NPLs. One respondent (1%) answered in the neutral while only four respondents (4.2%) indicated that they did not agree that high unemployment rates led to high NPLs.

4.3.6 Unemployed People Likely to Default

The following results were obtained when the respondents were asked whether they thought unemployed people had a higher tendency of defaulting on loan repayment. Forty-six-point-nine percent of the respondents (n = 45) indicated that they strongly agreed while 44.8% of the respondents (n = 43) indicated that they agreed that unemployed people are likely to default on loans. Only 8.3% of the respondents (n = 8) indicated that they did not agree that unemployed people were likely to default.

![Figure 4.6: Unemployed People Likely to Default on Loans](image)

4.3.7 Increase in Inflation Levels Lead to Increased NPLs

The researcher asked the respondents whether they agreed that increase in inflation levels led to NPLs. Forty-six respondents (47.9%) and 48 respondents (50%) indicated that they strongly agreed and agreed respectively that increase in Inflation levels led to NPLs. Two respondents indicated that they were neutral to this question. Table 4.5 is indicatives of these findings.
Table 4.5: Increase in Inflation Levels Lead to NPLs

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>Frequency (F)</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>48</td>
<td>50.0</td>
</tr>
<tr>
<td>Neutral</td>
<td>2</td>
<td>2.1</td>
</tr>
<tr>
<td>Total</td>
<td>96</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.4 Institutional or Bank-Specific Factors Affecting Non-Performing Loans

In section C of the interview schedule, the researcher asked the respondents questions of specific relevance to the second research of objective. The following are the results that were obtained in this regard.

4.4.1 Institutional or Bank-Specific Factors Affecting NPLs

Table 4.6: Bank-Specific Factors Affecting NPLs

<table>
<thead>
<tr>
<th>Bank Ownership</th>
<th>Frequency (F)</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Interest Rates</td>
<td>21</td>
<td>21.9</td>
</tr>
<tr>
<td>Lenient Credit Terms</td>
<td>16</td>
<td>16.7</td>
</tr>
<tr>
<td>Poor Loan Monitoring/Follow-Up</td>
<td>10</td>
<td>10.4</td>
</tr>
<tr>
<td>Poor Risk Management</td>
<td>24</td>
<td>25.0</td>
</tr>
<tr>
<td>Total</td>
<td>96</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Table 4.6 shows the results that were obtained when the respondents were asked to indicate the bank-specific factors that they thought affected NPLs. The following results were obtained. Twenty-six percent of the respondents (n= 25) indicated that they thought bank ownership affected NPLs. Ten-point-four percent (n = 10) indicated that lenient terms of credit led to NPLs. Twenty-one-point-nine percent (n = 21) indicated that High
interest rates led to NPLs while 16.7% (n = 16) and 25% (n = 24) indicated that poor loan monitoring or follow-up and poor risk management affected NPLs respectively.

4.4.2 The Bank Easily Admits Borrowers

Figure 4.7 represents the findings when the respondents were asked to indicate whether their bank admitted borrowers easily. Four respondents (4.2%) did not agree that their bank admits borrowers easily. Eight respondents (8.3%) remained neutral while 40 respondents (41.7%) indicated that they agreed that their bank easily admits borrowers. Forty-four respondents (45.8%) indicated that they strongly agreed that their bank easily admits borrowers.

Figure 4.7: Bank Easily Admits Borrowers

4.4.3 Lenient or Lax Credit Terms Precipitate NPLs

The following results, as indicated in Table 4.7, were obtained when the respondents were asked to indicate whether they agreed that offering lenient or lax credit terms precipitated NPLs. Twenty-three respondents (24%) agreed that lenient or lax terms of credit led to NPLs. Thirty-nine respondents (40.6%) indicated that they agreed that lenient or lax terms of credit led to NPLs. Twenty-four respondents (25%) remained neutral while 10 respondents (10.4%) indicated that they disagreed that lenient or lax terms of credit precipitated NPLs.
Table 4.7: Lenient or Lax Credit Terms Precipitate NPLs

<table>
<thead>
<tr>
<th></th>
<th>Frequency (F)</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>23</td>
<td>24</td>
</tr>
<tr>
<td>Agree</td>
<td>39</td>
<td>40.6</td>
</tr>
<tr>
<td>Neutral</td>
<td>24</td>
<td>25</td>
</tr>
<tr>
<td>Disagree</td>
<td>10</td>
<td>10.4</td>
</tr>
<tr>
<td>Total</td>
<td>96</td>
<td>100</td>
</tr>
</tbody>
</table>

4.4.4 High Interest Lead to NPLs

The researcher asked the respondents whether they agreed that high interests on loans led to the NPLs. Figure 4.8 is indicative of the results that were obtained. Twenty-one respondents (21.9%) strongly agreed that the high interest rates led to high NPLs while 34 respondents (35.2%) indicated that they agreed that high interest rates led to NPLs. Twenty-eight respondents (29.3%) remained neutral while 11 respondents (11.5%). The two remaining respondents (2.1%) indicated that they strongly disagreed that high interest rates led to NPLs.
4.4.5 Ill-Negotiated Terms of Credit Lead to NPLs

Table 4.8 shows the results that were obtained when the respondents were asked to indicate whether they agreed that ill-negotiated terms of credit lead to NPLs. Three respondents (3.1%) indicated that they disagreed that real negotiated terms of credit led to NPLs. However, 11 respondents (11.5%) and 46 respondents (47.9%) strongly agreed and agreed respectively that ill-negotiated terms of credit led to NPLs. Twenty respondents (20.8%) indicated that they were neutral while the rest 16 respondents (16.7%) disagreed that ill-negotiated terms of credit did not lead to NPLs.

Table 4.8: Ill-Negotiated Terms of Credit Lead to NPLs

<table>
<thead>
<tr>
<th></th>
<th>Frequency (F)</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>3</td>
<td>3.1</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>11</td>
<td>11.5</td>
</tr>
<tr>
<td>Agree</td>
<td>46</td>
<td>47.9</td>
</tr>
<tr>
<td>Neutral</td>
<td>20</td>
<td>20.8</td>
</tr>
<tr>
<td>Disagree</td>
<td>16</td>
<td>16.7</td>
</tr>
<tr>
<td>Total</td>
<td>96</td>
<td>100</td>
</tr>
</tbody>
</table>

4.4.6 Failure of Bank Follow-up Leads to NPLs

Figure 4.9 is indicative of the results that were obtained when the respondents were asked to indicate whether the failure by the bank to follow up on loans leads to NPLs. Twenty-eight-point-one of the respondents (n = 27) and 40.6% (39) indicated that they strongly agreed that failure of bank follow-up led to NPLs respectively. Twenty-two-point-nine percent of the respondents (n = 22) indicated that they were neutral. However, 6.3% (n = 6) and 2.1% (n = 2) indicated that they disagree and strongly disagree respectively that failure of bank follow up on loans led to NPLs.
4.4.7 The Price of Loans Affect the Performance of Loans

Table 4.9 shows the results that were obtained when the respondents were asked whether they agreed that the price of loans affected the loans’ performance. Nineteen respondents (19.8%) and 23 respondents (24%) indicated that they ‘strongly agree’ and ‘agree’ respectively that the price of loans affected the performance of loans.

**Table 4.9: Price of Loans Affect Loans’ Performance**

<table>
<thead>
<tr>
<th></th>
<th>Frequency (F)</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>19</td>
<td>19.8</td>
</tr>
<tr>
<td>Agree</td>
<td>23</td>
<td>24</td>
</tr>
<tr>
<td>Neutral</td>
<td>40</td>
<td>41.7</td>
</tr>
<tr>
<td>Disagree</td>
<td>10</td>
<td>10.4</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>4</td>
<td>4.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>96</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Forty respondents (41.7%) were non-committal and indicated that they were neutral. Ten respondents (10.4%) and 4 respondents (4.2%) indicated that they disagree and strongly disagree respectively that price of loans affected loans’ performance.
4.5 Remedial Mechanisms of Dealing With Non-Performing Loans

The researcher also asked the respondents questions with specific relevance to research objective three. This part of the study presents the findings or results obtained with regard to the third research objective.

4.5.1 Major Remedial Measures for Dealing with NPLs

The following responses were obtained when the respondents were asked to indicate the major remedial mechanisms of dealing with NPLs. Twelve-point-five percent of the respondents (n = 12) indicated that effective monitoring was a remedial measure of dealing with NPLs. Forty-seven-point-nine percent of the respondents indicated that effective risk assessment was a measure of dealing with NPLs. Some of the respondents making up 6.3% (n = 6) indicated that increased budgetary allocation for loan monitoring was a viable means of addressing NPLs. The rest of the respondents comprising of 33.3% (n = 32) indicated that interest rates reductions was a major remedial measure of dealing with NPLs. Table 4.10 is a tabular representation of these results.

Table 4.10: Major Remedial Mechanisms of Dealing with NPLs

<table>
<thead>
<tr>
<th>Frequency (F)</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective Monitoring</td>
<td>12</td>
</tr>
<tr>
<td>Effective Risk Assessment</td>
<td>46</td>
</tr>
<tr>
<td>Increased Budgetary Allocation for Loan Monitoring</td>
<td>6</td>
</tr>
<tr>
<td>Interest Rates Reduction</td>
<td>32</td>
</tr>
<tr>
<td>Total</td>
<td>96</td>
</tr>
</tbody>
</table>

4.5.2 Strict Monitoring Measures Reduce NPLs

Figure 4:10 shows the results that were obtained when the respondents were asked to indicate whether they thought strict monitoring measures reduce NPLs. Four-point-two percent (n = 4) and 5.2% (n = 5) indicated that they strongly disagree and disagree respectively that they though strict monitoring reduced NPLs. Nine-point-four percent of the respondents indicated that they were neutral. Forty-five-point percent of the
respondents (n = 44) and 35.4% (n = 34 indicated that they agree and strongly agree respectively that strict monitoring lead to NPLs.

Figure 4.10: Strict Monitoring Measures Reduce NPLs

4.5.3 Provision of Collateralized Loans Reduce NPLs

The respondents were asked to indicate if they agreed that the provision of collateralized loans lead to a reduction of NPLs. Fifteen respondents (14.6%) and 48 respondents (50%) indicated that they strongly agree and agree provision of collateralized loans reduced NPLs. Nine respondents (9.4%) were neutral while 14 respondents (14.6%) and 10 respondents (10.4%) indicated that they disagree and strongly disagree respectively that the provision of collateralized loans reduce NPLs. Table 4.11 shows these results.

Table 4.11: Provision of Collateralized Reduce NPLs

<table>
<thead>
<tr>
<th></th>
<th>Frequency (F)</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>15</td>
<td>14.6</td>
</tr>
<tr>
<td>Agree</td>
<td>48</td>
<td>50</td>
</tr>
<tr>
<td>Neutral</td>
<td>9</td>
<td>9.4</td>
</tr>
<tr>
<td>Disagree</td>
<td>14</td>
<td>14.6</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>10</td>
<td>10.4</td>
</tr>
<tr>
<td>Total</td>
<td>96</td>
<td>100</td>
</tr>
</tbody>
</table>

4.5.4 Poorly Assessed Loan Advances Become NPLs
Figure 4.11 is indicative of the findings that were obtained when the respondents were asked to indicate whether they thought that poorly assessed loan advances become NPLs. Forty-five-point-eight (n = 44) and 29.2% (n = 28) indicated that they strongly agree and agree respectively that poorly assessed loan advances become NPLs. Nine-point-four percent (n = 9) indicated that were neutral. However, 10.4% (n = 10) and 5.2% (n = 5) of the respondents indicated that they disagree and strongly disagree respectively that poorly assessed loans advances become NPLs.

Figure 4.11: Poorly Assessed Loan Advances Become NPLs

4.5.6 Explaining Terms of Credit to Customers Reduce Occurrence of NPLs

Table 4.12 shows the results that were obtained when the respondents were asked if they agreed that explaining terms if credit to customers reduce the occurrence of NPLs. Twenty-seven respondents (28.1%) and 34 respondents (35.4%) indicates that they strongly agreed and agreed respectively that explaining terms if credit to customers reduce the occurrence of NPLs. Ten respondents were non-committal and indicated that they were neutral. However, eleven respondents (11.5%) and 14 respondents (14.6%) indicated that they disagree and strongly disagreed respectively that explaining terms if credit to customers reduce the occurrence of NPLs.
Table 4.12: Explaining Terms of Credit Customers Reduce the Occurrence of NPLs

<table>
<thead>
<tr>
<th></th>
<th>Frequency (F)</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>27</td>
<td>28.1</td>
</tr>
<tr>
<td>Agree</td>
<td>34</td>
<td>35.4</td>
</tr>
<tr>
<td>Neutral</td>
<td>10</td>
<td>10.4</td>
</tr>
<tr>
<td>Disagree</td>
<td>11</td>
<td>11.5</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>14</td>
<td>14.6</td>
</tr>
</tbody>
</table>

4.5.7 More Funding of Loan Monitoring Lead to Reduced NPLs

The researcher asked the respondents to indicate whether they thought more funding of loan monitoring lead to reduced NPLs. Figure 4.12 is indicative of the results that were obtained.

Figure 4.12: More Funding of Loan Monitoring lead to Reduced NPLs

Nine-point-four percent of the respondents (n = 9) indicated that they strongly agree that more funding of loan monitoring lead to reduced NPLs. Seventeen-point-seven percent of the respondents (n = 17) indicated that they disagree that more funding of loan monitoring lead to reduced NPLs. Twenty-nine-point percent (n = 28) of the respondents indicated that they were neutral. Thirty-four-point-four percent of the respondents (n = 33) and nine-point-three percent of the respondents (n = 9) indicated that they agree and strongly agree respectively that more funding of loan monitoring lead to reduced NPLs.
4.5.8 Poor Risk Management Mechanism Lead to NPLs

Table 4.13 shows the findings that were obtained when the respondents were asked to indicate whether they agreed that poor risk management mechanism led to NPLs. Twenty-eight respondents (29.2%) and 33 respondents (34.4%) indicated that they strongly agree and agree respectively that poor risk management mechanism led to NPLs. Twelve respondents (12.5%) were non-committal and indicated that they were neutral. Nonetheless, 10 respondent (10.4%) and 13 respondents (13.5%) indicated that they disagree and strongly disagree that poor risk management mechanism led to NPLs.

Table 4.13: Poor Risk Management Mechanism Lead to NPLs

<table>
<thead>
<tr>
<th></th>
<th>Frequency (F)</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>28</td>
<td>29.2</td>
</tr>
<tr>
<td>Agree</td>
<td>33</td>
<td>34.4</td>
</tr>
<tr>
<td>Neutral</td>
<td>12</td>
<td>12.5</td>
</tr>
<tr>
<td>Disagree</td>
<td>10</td>
<td>10.4</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>13</td>
<td>13.5</td>
</tr>
</tbody>
</table>

4.5.8 Correlations Between the Independent and the Dependent Variables

Table 4.14 shows the results when further analyses were conducted on the independent and the dependent variables. The correlations indicated that there was as weak a positive correlation between bank ownership and the presence of the NPLs in the bank’s credit portfolio \( r = .0103, p < .01 \). Correlation between the influence of exchange rates on NPLs also yielded a positive value \( r = .027 p < .2674 \) indicating that exchange rates influence NPLs.
Table 4.14: Correlations Between the Independent and the Dependent Variables

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Presence of NPLs in Banks Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Ownership</td>
<td>-0.1300 0.1034</td>
</tr>
<tr>
<td>Influence of Exchange Rates on NPLs</td>
<td>-0.0641 0.2674</td>
</tr>
<tr>
<td>Increase in Exchange Rates Value Increases NPLs</td>
<td>-0.1104 0.1421</td>
</tr>
<tr>
<td>Economic Conditions Affect NPLs Level</td>
<td>-0.1074 0.1488</td>
</tr>
<tr>
<td>Real GDP Affects NPLs</td>
<td>-0.1168 0.1286</td>
</tr>
<tr>
<td>Unemployment Rates Lead to Increased NPLs</td>
<td>-0.0280 0.3932</td>
</tr>
<tr>
<td>Employed People Likely to Default</td>
<td>-0.1292 0.1048</td>
</tr>
<tr>
<td>Inflation Levels Lead to Increased NPLs</td>
<td>-0.1199 0.1223</td>
</tr>
<tr>
<td>Bank Easily Admins Borrowers</td>
<td>-0.0613 0.2764</td>
</tr>
<tr>
<td>Years of Experience in the Bank Credit Process</td>
<td>-0.1805 0.0392</td>
</tr>
<tr>
<td>Lenient or Lax Credit Terms Precipitate NPLs</td>
<td>-0.0392 0.3523</td>
</tr>
<tr>
<td>Price of Loans Affect Loans' Performance</td>
<td>-0.0038 0.4852</td>
</tr>
<tr>
<td>High Interest Rates Lead to High NPLs</td>
<td>-0.0917 0.1870</td>
</tr>
<tr>
<td>NPLs Are Caused By Ill-Negotiated Terms</td>
<td>0.0338 0.3738</td>
</tr>
<tr>
<td>Failure of Banks Loan-Follow-up Leads to NPLs</td>
<td>-0.0711 0.2455</td>
</tr>
<tr>
<td>Strict Monitoring Measures Reduces NPLs</td>
<td>0.0496 0.3156</td>
</tr>
<tr>
<td>Provision of Collateralized Loans Reduces NPLs</td>
<td>-0.2135 0.0189</td>
</tr>
<tr>
<td>Poorly Assessed Loan Advances Become NPLs</td>
<td>0.0404 0.3480</td>
</tr>
<tr>
<td>Loan Defaults Caused by Little Understanding of Loan Terms</td>
<td>-0.1020 0.1614</td>
</tr>
<tr>
<td>More Funding of Loan Monitoring Lead To Lower NPLs</td>
<td>-0.1303 0.1029</td>
</tr>
<tr>
<td>Poor Risk Management Mechanism Lead to NPLs</td>
<td>-0.1275 0.10788</td>
</tr>
</tbody>
</table>

*Correlation is significant at the 0.05 level (1-tailed).

** Correlation is significant at the 0.01 level (1-tailed).
4.6 Chapter Summary
This chapter has provided a presentation of the research findings. The chapter has employed the use of bar graphs, pie charts and frequency tables to show the results that were derived from the study. The Chapter has shown that the response rate for the study was about 79%, which is relatively high and sufficient to facilitate the acquisition of relevant data that can be generalized among the populations. The response rate also allowed for the realization of relevant and sufficient data that could be interpreted to facilitate the realization of the purpose of the study. The next chapter, Chapter Five provides the recap of the study. The chapter provides the summary and discusses the study findings. The chapter also provides the conclusion and the recommendations.
CHAPTER FIVE

5.0 DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

Chapter 5 is the final chapter of the study and provides the summary of the study, the discussion of the major findings of the study. The Chapter also provides the conclusion and the recommendations deemed viable at the backdrop of the findings of the study.

5.2 Summary of the Study

The purpose of this study was to investigate the factors that affect non-performing loans at the Commercial Bank of Africa (Kenya). The study was guided by three research questions, namely: one, what are the macro-economic factors that affect non-performing loans at Commercial Bank of African (Kenya)? Two, what institutional or bank-specific factors affect non-performing loans at Commercial Bank of Africa (Kenya)? Three, what are some of the remedial practices can be implemented to reduce the level of non-performing loans at Commercial Bank of Africa (Kenya)?

The study adopted a partly descriptive and a partly correlational research design. A partly descriptive and a partly correlational research design is preferable in that it permitted a description of the factors affecting non-performing loans while a correlational research design made it possible to determine how the factors correlate. The population of the study included 451 staff members currently working for the CBA - Kenya. From this population a sample size of 122 individuals was derived and to these the data collection instrument, semi-structured questionnaire was administered. The questionnaire was divided into four parts, the first part solicited general information while the other three sections asked questions relating to the three research questions.

However, prior to the actual study, a pilot study was conducted on a fraction of the sample population in order to determine the reliability and suitability of the instrument. The feedback of the pilot study was used to improve the data collection instrument. During the actual study, the research employed the random sampling technique in choosing the respondents. The response rate for the study was estimated at 79% that is to say that out of the 122 questionnaires that were issued, 96 were determined complete and valid for presentation and analysis. The questionnaires were coded and fed to the SPSS
software from which statistical calculations were conducted and tables, graphs and figures were derived for data presentations. Correlations among the relevant variables were also done.

It was found that the prevailing economic conditions were the major economic factor affecting the levels of NPLs. The proportion of the respondents who answered in favor of the economic conditions stood at 41.7% \( (n = 40) \) compared to 14.6% \( (n = 4) \) who thought the real GDP was the major factor affecting NPLs. On the bank-specific factors affecting NPLs, the highest proportion of the respondents 26% \( (n = 25) \) indicated that bank ownership was the major cause of NPLs compared to 10.4% of the respondents \( (n = 10) \) who considered poor loan monitoring/follow-up as the major bank-specific cause of NPLs. The study found that effective risk assessment was the most highly considered as the major remedial strategy of dealing with NPLs. According to the study findings 47.9% of the respondents \( (n = 46) \) indicated that effective risk assessment was the major remedial mechanism of dealing with NPLs compared to 6.3% \( (n = 6) \) who considered increased budgetary allocation for loan monitoring as the major measure of dealing with NPLs.

5.3 Discussion

This part of the study discusses the findings of the survey study with respect to previous findings and existing literature on the issue area.

5.3.1 Macro-Economic Factors Affecting Non-Performing Loans

The study has determined that several factors particularly crucial in determining the NPLs. These include economic depression (inflation), the exchange rates, the Gross Domestic Product, the unemployment levels, as well as loan performance and real interest rates (Karim, et al., 2010). These are macro-economic factors and as such relate to the general economy of the country and not to any individual state. These factors are considered to be the major influencers of NPLs. Indeed, as Fatemi and Fooladi (2006) contends, there is an intricate link between the banking stability and the business cycle. This is principally because the economic factors undercut the people’s capacity to service their loans.
The study has determined that several respondents consider the prevailing economic conditions in the country as the major factor determining NPLs. From the study it was found that thirty-one-point-three percent of the respondents (n = 30) indicated that they strongly agreed that economic conditions affected NPLs. Another group of respondents comprising of 55.2% of the respondents indicated that they agreed that economic conditions affected NPLs. However, 6.3% of the respondents (n = 6) indicated that they disagreed that economic conditions affected the level of Non-performing loans. This was quite easy to fathom given as Guy (2011), observes that when the economy is expanding, both the consumers and business firms realize higher income and revenues respectively and are therefore more likely to service or offset the pending debts.

Furthermore, the exchange rates also have a strong impact on the NPLs. From the correlation analysis, it was determined that the correlation between the influence of exchange rates on NPLs also yielded a positive value $r = .027 p < .2674$ indicating that exchange rates influence NPLs. According to Brownbrigde (2007), an appreciation or a depreciation of exchange rates influences the revenue earnings for export-oriented companies.

The levels of unemployment in the country are another factor, which was determined to be a major cause of NPLs for banks. From the survey it was established that fifty-two respondents (54.2%) and 39 respondents (40.6%) indicated that they strongly agreed and agreed respectively that high unemployment rates led to high NPLs. One respondent (1%) answered in the neutral while only four respondents (4.2%) indicated that they did not agree that high unemployment rates led to high NPLs. The levels of unemployment are normally higher during periods of economic recession as evident in several countries that have witnessed economic slump. According to Gorton and Winton (2005), the unemployed especially those who had worked before but have retired or have been laid off or fired are unable to pay back loans that their might have acquired since they do not have the salary or wages with which to settle their loans.

5.3.2 Institutional or Bank-Specific Factors Affecting Non-Performing Loans

Richard (2011) observes that there are endogenous forces inherent in the banks institutional processes that influence the levels of NPLs. These internal factors relate to the structure and the internal policies of specific or individual banks (Sinkey 2007). These
factors have been determined to include insider lending, the ownership of the bank, the amount of interest that the bank charges on loans as well as lenient terms of credit offered by banks. According to Richard (2011), ownership of the bank influences the risk taking behavior of that bank which further determines the level of non-performing loans that a bank would have. It has been found that state owned banks are more disposed to engage in risky credit behaviors and therefore are more prone to NPLs (Guy, 2011). This is because as the property of the state, state owned banks are often influenced by the government of the day to facilitate economic development (Babouček and Jančar, 2005).

Nonetheless, the amount of interest charged by the banks on loans the so-called price of loans has been found to contribute to the defaults on loan repayment by customers. Indeed the survey findings are in tandem with these assertions. From the study, it was found that most of the respondents indicated that higher rates of interest or high loan prices contributed to the rate of default on loans by customers. It was found that twenty-one respondents (21.9%) strongly agreed that the high interest rates led to high NPLs while 34 respondents (35.2%) indicated that they agreed that high interest rates led to NPLs. Twenty-eight respondents (29.3%) remained neutral while 11 respondents (11.5%). The two remaining respondents (2.1%) indicated that they strongly disagreed that high interest rates led to NPLs.

A high interest rate means that the customer will pay more on top of the money they borrow as the banks gain more from the money they loan to clients (Onsarigo, et al., 2013). As Collins and Wanjua (2011), observe, high interest rates makes it hard for the borrowers to services their loans, which means that an increase in the levels of NPLs is the result. In addition to the price of loans, insider lending and lenient terms of credit are also major contributors to NPLs. Richard (2011) observes that insider loans are one of the key reasons for the failure of many banks. The main reason why insider loans fails is because of other than being issued under different terms than those given to outsiders; loans obtained from insider lending loans are also invested in speculative projects with high propensity for failure such as real estate development (Messai and Jouini, 2013). Besides, the loans are often invested in huge extended projects that are less likely to generate returns in the short-term.
According to Lu, et al. (2011), when the banks have a practice of offering strict credit terms and abiding by them, the chances of default on loan payment are reduced to a very great degree. The terms of credit are the conditions that the banks dictate to a potential borrower concerning monthly and total amount of credit, the possible maximum repayment time and the rate of late repayment (Brownbridge, 2007).

5.3.3 Remedial Mechanisms of Dealing With Non-Performing Loans
According to Guy (2011), the impact of non-performing loans on any bank or economy can be devastating, it is therefore important that non-performing loans are controlled to ensure that the banks remain functional and profitable. Therefore, as Onsarigo, et al., (2013) contends, several strategies and measures have been exploited by banks in order to deal with NPLs. For instance, According to Babouček and Jančar (2005), some banks have especially applied this strategy during times of depressions when borrowers are more likely to default loan payments. By reducing interest rates the banks are also able to allow their customers to return the money that they borrowed as the bank makes some little profit. According to Messai and Jouini (2013), the reduction of interest rates on loan borrowed have been crucial to banks in making limited profit in situations where they would have made great losses.

In addition, conducting effective risk assessment before availing loans to clients has been cited as a fundamental mechanism of dealing with NPLs. Certainly, several respondents indicated that effective risk assessment was a fundamental mechanism of addressing NPLs. It was found that twenty-eight respondents (29.2%) and 33 respondents (34.4%) indicated that they strongly agree and agree respectively that poor risk management mechanism led to NPLs. Twelve respondents (12.5%) were non-committal and indicated that they were neutral. Nonetheless, 10 respondent (10.4%) and 13 respondents (13.5%) indicated that they disagree and strongly disagree that poor risk management mechanism led to NPLs.

Furthermore, the reduction of interest rates has been used as a strategy by several banks to address the issue of non-performing loans (Khemraj and Pasha, 2009). These follows perhaps from the realization of that higher interests rates is one of the main causes of loan defaults by borrowers (Brownbrigde, 2007). According to Babouček and Jančar (2005),
some banks have especially applied this strategy during times of depressions when borrowers are more likely to default loan payments.

5.4 Conclusion
The study makes the following conclusions with regard to the three research questions that guided the study.

5.4.1 Macro-Economic Factors Affecting Non-Performing Loans
Macro-economic factors such as the prevailing economic conditions, the interest rates, the level of unemployment and the real GDP have extensive influence on the levels of non-performing loans that banks have in their portfolio. The macro-economic factors influence people’s loan repayment habits and as such do affect whether people pay the loans that they obtain from the bank on time or not. Most of the macro-economic factors are interconnected as such as the prevailing economic conditions and the levels of unemployment.

Therefore, a positive change in the economic conditions perceptibly leads to a reduction in the levels of unemployment. This invariably results in the reduction in the levels of NPLs as more people who are now employed become more capable of servicing their loans. However, these macro-economic factors are sometimes beyond the control of the government especially in the contemporary globalized world in which the economies are so interconnected. Therefore, the government may in most be incapable of addressing these macro-economic factors which may often be international.

5.4.2 Institutional or Bank-Specific Factors Affecting Non-Performing Loans
The overriding bank-specific factors that affect NPLs include the following: bank ownership, high interest rates, lenient credit terms, poor loan monitoring or follow-up as well as poor risk management. The first three factors as well as the last factor were picked by most of the respondents as the factors that they considered as being responsible for causing NPLs. These factors are internal to the banks and implicate the banks process and policies. Therefore, these factors are very much within the control of the bank and with sound policy and effective management, the factors can be reduced and this can lead a reduction in the levels of NPLs in the banks’ credit portfolio.
5.4.3 Remedial Mechanisms of Dealing With Non-Performing Loans

The government and the banks to deal with NPLs can implement several remedial measures. These measures include among others undertaking strict measures of recruiting customers to whom loans are advanced, effectively assessing the risks involved in advancing loans to customers and reducing the amount of interests that the banks charge on loans. While there are indeed several remedial measures, the threat of NPLs’ occurrence cannot be effectively addressed due to the intricacy of the process as well as the number of factors that affect the NPLs. The remedial factors can only however help reduce the levels of NPLs in a banks portfolio.

5.5 Recommendations

5.5.1 Recommendations for Improvement

5.5.1.1 Macro-Economic Factors Affecting Non-Performing Loans

There is need for the government to reduce the strains to the general economy in order not only to facilitate economic growth but also to enhance the minimization of the macro-economic factors that precipitate NPLs. The government as well as other stakeholders in the economy should acknowledge the threat that bad loans pose not only to the banking sector but also to the general economy. The government must take into account that NPLs can contribute to the collapse of the banking sector and to the entire economy. Furthermore, the government should implement policies that would facilitate the sustained growth of the economy.

5.5.1.2 Institutional or Bank-Specific Factors Affecting Non-Performing Loans

CBA (Kenya) as well as other banks operating in Kenya must endeavor to reduce the bank-specific factors that precipitate high levels of NPLs. The banks must realize that high levels of NPLs pose a very serious threat not only to the bank but also to the entire financial system. Therefore, there is need for bank to offer fair prices for loan advances and to reduce the amount of interest that they charge on loans. CBA as well as other commercial banks should minimize the instances of insider borrowing and offering loans on lenient terms of credit. The banks must take into account that loans offered on lax terms as well as loans offered to the staff members often result in being NPLs.
5.5.1.3 Remedial Mechanisms of Dealing With Non-Performing Loans

Banks should implement some of the remedial measures for dealing with NPLs which the current study cited and which are not already implemented by the bank. The credit directors and the bank management in general should consider some ways of controlling the chances of NPLs such as monitoring how customers repay loans before providing them with new loans. The stakeholders in the credit system including the banks and the government must implement policies that will facilitate the minimization of the macro-economic and bank-specific factors that precipitate NPLs.

5.5.1.4 Recommendations for Future Research

Future researchers should conduct more studies and provide more information on the issue of non-performing loans. Future research should focus on specific areas such as the bank-specific or institutional factors affecting non-performing loans. Such studies need to focus of specific factors and conduct thorough quantitative studies and provide information on how these specific factors affect non-performing loans.
REFERENCES


APPENDIX 1: LETTER OF INTRODUCTION

Mary N. Nkurrunah
P.O.BOX 30437 [00100]
Tel. [Mobile]
+254 –721689337
July 13, 2014

Dear Sir/Madam

RE: LETTER OF INTRODUCTION

I am a Masters student at United States International University. I am currently working on my project thesis entitled, “FACTORS AFFECTING NON-PERFORMING LOANS: A CASE STUDY OF COMMERCIAL BANK OF AFRICA (CBA)” in partial fulfillment of my degree requirements.

I have chosen your organization as one in which I want to carry out a survey in order to realize the purpose of my study. This is because I believe that your organization has staffs that possess the relevant information that will help me determine the answers to my research questions.

The purpose of this letter is therefore to request your assistance and permission to conduct the study in your organization and among your staff using a semi-structured interview schedule. I also request that you may recommend to me some of the staff members that you determine to possess the relevant information.

I declare to abide by the University rules and guidelines concerning research undertaking and will endeavor to observe utmost ethical standards in the process of conducting the research. Stay assured that the survey will not have any negative repercussions on your organization.

Yours Sincerely,

Nasieku Nkurrunah.
APPENDIX 2: INTERVIEW SCHEDULE

SURVEY TITLE: FACTORS AFFECTING NON-PERFORMING LOANS: A CASE STUDY OF COMMERCIAL BANK OF AFRICA – CBA (KENYA)

Date: ___________________

Name (Optional): ________________

Mobile Number (Optional): ___________

The purpose of this survey study is to examine the factors that affect non-performing loans (NPLs). The researcher is specifically, in obtaining information regarding three areas of interest, namely; the macro-economic factors affecting non-performing loans; bank-specific or institutional factors affecting non-performing loans; and the remedial mechanisms that can be implemented to deal with non-performing loans.

Kindly, note that should you decide that you do not wish to participate in the survey, then you are at liberty to return this instrument to the researcher. Please read each question carefully and answer it to the best of your ability, where necessary check [√] the boxes provided. There are no correct or incorrect responses; your answers are crucial to the study.

To facilitate follow-up surveys, please enter the date, and your name and your mobile phone number in the designated spaces above (this is optional). Please Note: all responses to this survey are completely confidential any identifying information will be removed from this survey instrument and destroyed as soon as all data has been collected and processed.

Thank you for your participation in this study
Section A: Background Information

1. How long has your organization been in operation in Kenya? Please indicate.
__________________________________________________________________________

2. What is your current position in the bank?

[ ] Loan Officer          [ ] Credit Analyst
[ ] Recovery or Monitoring Officer   [ ] Credit Director
[ ] Other, please specify ________________________________

3. Kindly, indicate your experience the banking sector.

[ ] Less than a year       [ ] 1 - 5 years
[ ] 6 – 10 years           [ ] 11 – 15 years
[ ] Over 15 years

4. What is your experience in the bank credit process?

[ ] Less than a year       [ ] 1 - 5 years
[ ] 6 – 10 years           [ ] 11 – 15 years
[ ] Over 15 years

5. What is the ownership of this bank?

[ ] Public owned          [ ] Private owned
[ ] Public and Private Owned   [ ] Any other? Kindly, kindly indicate

6. Would you say that the determinants of non-performing loans (NPLs) are obvious?

[ ] Strongly disagree       [ ] Agree
[ ] Neutral                [ ] Strongly agree

7. Do you have any non-performing loans (NPLs) in your loan portfolio?

[ ] Not at all           [ ] Very Little
[ ] To a great extent  [ ] extensively
Section B: Macro-economic Factors Affecting NPLs

8. In the table below are some of the major macro-economic factors that have been identified to affect Non-performing loans. Kindly, rank them from the most from highest to the lowest.

Key: 1 = Highest 7 = Lowest.

<table>
<thead>
<tr>
<th>Macro-economic factors causing non-performing loans.</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Conditions (Inflation)</td>
<td></td>
</tr>
<tr>
<td>The real GDP</td>
<td></td>
</tr>
<tr>
<td>Exchange Rates</td>
<td></td>
</tr>
<tr>
<td>The level of Unemployment</td>
<td></td>
</tr>
<tr>
<td>Share Prices</td>
<td></td>
</tr>
<tr>
<td>Stock Market Capitalization</td>
<td></td>
</tr>
<tr>
<td>Other, specify:</td>
<td></td>
</tr>
</tbody>
</table>

9. An appreciation or a depreciation of exchange rates influences the revenue earnings for export-oriented companies and this affects NPLs. Would you agree?

[ ] Strongly Agree [ ] Agree
[ ] Neutral [ ] Disagree [ ] Strongly Disagree

10. Do you agree that the appreciation in the exchange rate leads to an increase in the levels of NPLs?

[ ] Strongly Agree [ ] Agree
[ ] Neutral [ ] Disagree [ ] Strongly Disagree

11. Kindly provide an explanation for your answer above. ____________________________

__________________________________________________________________________________________
12. The prevailing economic conditions affect the level of Non-performing loans. Would you agree?

[ ] Strongly Agree
[ ] Agree
[ ] Neutral
[ ] Disagree
[ ] Strongly Disagree

13. The real Gross Domestic Product is a key factor influencing the NPL ratio. What your response be to this assertion?

[ ] Strongly Agree
[ ] Agree
[ ] Neutral
[ ] Disagree
[ ] Strongly Disagree

14. Kindly provide an explanation for your answer above. _______________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________

15. Do you believe that unemployment relates positively with the NPL?

[ ] Strongly Agree
[ ] Agree
[ ] Neutral
[ ] Disagree
[ ] Strongly Disagree

16. Are unemployed people likely to default on loan payment?

[ ] Strongly Agree
[ ] Agree
[ ] Neutral
[ ] Disagree
[ ] Strongly Disagree

17. Would you say that when inflation levels increase the amount of bad loans also increase?

[ ] Strongly Agree
[ ] Agree
[ ] Neutral
[ ] Disagree
[ ] Strongly Disagree
Section B: Bank-Specific Factors Affecting NPLs

18. In the table below are some of the major Bank-specific factors that have been identified to affect Non-performing loans. Kindly, rank them from the most from highest to the lowest. Key: 1 = Highest 7 = Lowest.

<table>
<thead>
<tr>
<th>Bank-specific factors causing non-performing loans.</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Ownership</td>
<td></td>
</tr>
<tr>
<td>High Interest rates</td>
<td></td>
</tr>
<tr>
<td>Lenient Credit Terms</td>
<td></td>
</tr>
<tr>
<td>Size of the Bank</td>
<td></td>
</tr>
<tr>
<td>Poor Monitoring or Follow Up</td>
<td></td>
</tr>
<tr>
<td>Poor Risk Management</td>
<td></td>
</tr>
<tr>
<td>Other, specify:____________________________________</td>
<td></td>
</tr>
</tbody>
</table>

19. Would you agree that when a bank easily admits borrowers the chances of default increase?

[ ] Strongly Agree [ ] Agree
[ ] Neutral [ ] Disagree
[ ] Strongly Disagree

20. Kindly provide a reason for your answer above. ____________________________

________________________________________________________________________

________________________________________________________________________

21. Lenient or lax terms of credit precipitate loan defaults. Please indicate your degree of agreement with this statement.

[ ] Strongly Agree [ ] Agree
[ ] Neutral [ ] Disagree [ ] Strongly Disagree

22. Please indicate your level of agreement with the following statements.
<table>
<thead>
<tr>
<th>.</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>High interest rates beget high non-performing loans for banks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The price of loans affect loan performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-performing loans result out of ill-negotiated terms of credit.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

23. Would you agree that bank failure to carry out effective loan follow up leads to bad loans?

[ ] Strongly Agree [ ] Agree
[ ] Neutral [ ] Disagree
[ ] Strongly Disagree

24. Do agree that loans that are offered with high interest rates have a tendency of becoming non-performing?

[ ] Strongly Agree [ ] Agree
[ ] Neutral [ ] Disagree
[ ] Strongly Disagree

25. What is the reason for your answer above? Please explain_____________________

___________________________________________________________________
___________________________________________________________________
______________________________________

26. Do you believe Know Your Customer (KYC) policy by banks is an important practice that reduces the chances of quality loans?

[ ] Not Important [ ] A little Important
[ ] Important [ ] Very Important
Section C: Remedial Measures to Deal with NPLs

27. In the table below are some of the major mechanisms that have been implemented by banks to deal with Non-performing loans. Kindly, rank them from the most from highest to the lowest.

Key: 1 = Highest 7 = Lowest.

<table>
<thead>
<tr>
<th>Remedial measures for dealing with non-performing loans</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective Monitoring</td>
<td></td>
</tr>
<tr>
<td>Interest Rates Reduction</td>
<td></td>
</tr>
<tr>
<td>Effective Risk Assessment</td>
<td></td>
</tr>
<tr>
<td>Increased Budgetary Allocation for Loan Monitoring</td>
<td></td>
</tr>
<tr>
<td>Other, specify: ______________________________________</td>
<td></td>
</tr>
</tbody>
</table>

28. Do you believe that when banks ensure strict monitoring measures increases the chances of loan performance?

[ ] Strongly Agree  [ ] Agree
[ ] Neutral  [ ] Disagree  [ ] Strongly Disagree

29. What is the reason for your answer above? Please explain_____________________

___________________________________________________________________

___________________________________________________________________

________________________________________

29. What is the reason for your answer above? Please explain_____________________

___________________________________________________________________

___________________________________________________________________

________________________________________

30. Providing collateralized loans reduces the chances of loan defaults. Do you agree that by providing collateralized loans reduce the possibility of NPLs?

[ ] Strongly Agree  [ ] Agree
[ ] Neutral  [ ] Disagree
[ ] Strongly Disagree

31. What is the reason for your answer above? Please explain_____________________

___________________________________________________________________

___________________________________________________________________

________________________________________.
32. Would you say that when loans are poorly assessed loan advances often become non-performing?

[ ] Strongly Agree  [ ] Agree
[ ] Neutral  [ ] Disagree
[ ] Strongly Disagree

33. Borrowers default because they have little understanding of credit terms; therefore, it is important for bank loan officials to educate borrowers on the terms. Do you agree?

[ ] Strongly Agree  [ ] Agree
[ ] Neutral  [ ] Disagree
[ ] Strongly Disagree

34. Would you agree that the allocation of more funds for loan monitoring leads to lower non-performing loans?

[ ] Strongly Agree  [ ] Agree
[ ] Neutral  [ ] Disagree
[ ] Strongly Disagree

35. Kindly, provide a reason for your answers above.

___________________________________________________________________

___________________________________________________________________

___________________________________________________________________.

36. When banks have poor risk assessment mechanisms, the chance for loan default is increased. Would you agree that improving or providing effective risk assessment mechanisms leads to quality loans?

[ ] Strongly Agree  [ ] Agree
[ ] Neutral  [ ] Disagree
[ ] Strongly Disagree

37. Please provide any general comment of the factors affecting NPLs and remedial mechanisms that can be employed to deal with them.

___________________________________________________________________

___________________________________________________________________

___________________________________________________________________.

End of Questions

Thank You for Your Participation
## APPENDIX 3: RESEARCH BUDGET

<table>
<thead>
<tr>
<th>Items</th>
<th>Cost In Ksh.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Proposal development - printing and stationery</td>
<td>2000</td>
</tr>
<tr>
<td>2. Data Collection – Transport expenses</td>
<td>2000</td>
</tr>
<tr>
<td>3. Data Collection and Analysis</td>
<td>7000</td>
</tr>
<tr>
<td>4. Printing and Stationery</td>
<td>4000</td>
</tr>
<tr>
<td>5. Miscellaneous</td>
<td>2000</td>
</tr>
<tr>
<td><strong>Total Budget</strong></td>
<td><strong>17,000.00</strong></td>
</tr>
</tbody>
</table>
# APPENDIX 4: IMPLEMENTATION PLAN

<table>
<thead>
<tr>
<th>Activity/ Task</th>
<th>Time Frame/ Schedule</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Start</td>
<td>Finish</td>
<td>Duration</td>
</tr>
<tr>
<td>1. Proposal Writing</td>
<td>May 11&lt;sup&gt;th&lt;/sup&gt;</td>
<td>June 12&lt;sup&gt;th&lt;/sup&gt;</td>
<td>4 Weeks</td>
</tr>
<tr>
<td>2. Data collection</td>
<td>June 19&lt;sup&gt;th&lt;/sup&gt;</td>
<td>June 27&lt;sup&gt;th&lt;/sup&gt;</td>
<td>1 Week</td>
</tr>
<tr>
<td>3. Data Entry &amp; Analysis</td>
<td>June 28&lt;sup&gt;rd&lt;/sup&gt;</td>
<td>July 1&lt;sup&gt;st&lt;/sup&gt;</td>
<td>3 Days</td>
</tr>
<tr>
<td>4. Report Writing</td>
<td>July 2&lt;sup&gt;nd&lt;/sup&gt;</td>
<td>July 8&lt;sup&gt;th&lt;/sup&gt;</td>
<td>1 Week</td>
</tr>
<tr>
<td>5. Binding and Production</td>
<td>July</td>
<td></td>
<td>1 day</td>
</tr>
</tbody>
</table>