

CREDIT MANAGEMENT PRACTICES AND LOAN PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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ABSTRACT

Commercial banks operating in Kenya have been reporting dismal performance, with escalating amounts of non-performing loans between 2018 and 2020 as evidenced in the central bank's reports. The non-performing loans of these banks were averaged at 11 percent, a rate higher than the central bank's recommended rate of 1 percent, probably associated with insufficient credit management practices. The current analysis sought to determine credit management practices' effects on commercial banks' loan performance in the country. It specifically examined the objectives of the effect of credit rationing and client appraisal, on the loan performance of commercial banks in Kenya. The appropriate research design was descriptive survey applied to the targeted 38 commercial banks in the country. Questionnaire instrument assisted in collecting primary data on credit management practices while secondary information on loan performance was obtained from document review form based on loan records of 2018-2020. SPSS (v-21) aided the descriptive as well as inferential analyses of data. The findings of the regression analysis showed that the predictions in the model provide a positive correlation ($R = 0.759$) with loan performance. The coefficient of determination (r^2) was 0.5761. The predictors of credit rationing and client appraisal were all significant as an

increase in unit on credit rationing could lead to an increase in loan performance by 0.356. In addition, a unit increase in the client appraisal could lead to an increase in loan performance by 0.408. Further the results indicated that at 95 percent confidence level, credit rationing ($p\text{-value} = 0.001$) and client appraisal ($p = 0.001$) were significantly found in the regression model. The study concluded that debt collection has a significant impact on performance of loans, which is better to collect debt as the shorter debt collection period would lead to improved performance of commercial bank loans. The assessment also concluded that client appraisal has a significant effect on credit performance of the banking sector, implying the development of client appraisal would improve the performance of loans in the banking sector. Hence, the analysis concluded that commercial banks' loan performance was largely linked to efficiency in credit management practices adopted by the financial institutions. Based on the assessment findings, the study recommended that credit management practices should be adopted and applied equally by all commercial banks in Kenya to reduce the amount of non-performing loans in the banking sector.

Keywords: credit management, credit rationing, client appraisal and loan performance.

INTRODUCTION

Loans constitute higher amounts of banking institutions assets, while interests generated from credit constitute the main source of income globally. Moreover, loans contain a high level of risk and carry a profound effect on the commercial banks' profitability, liquidity, as well as solvency (Barth, Lin, Lin & Song, 2015). Smooth performance of loans advanced to borrowers can be greatly put at risk by the failures of borrowers to fulfil their contractual obligations within the stipulated dates. Therefore, to secure maximum loan performance of the commercial banks, revitalising credit rationing, client appraisal, debt collection, and credit monitoring are among the most crucial credit management practices to ensure effectiveness of loan performance (Keeton & Morris, 2016).

The process of advancing loan is led by credit management practices attained by proper policies defining procedures as well as guidelines to facilitate lending process in the commercial banking sector. If proper credit management practices are not adopted by banking institutions, then they risk having borrowers who do not honour their financial obligations (Kofarmata & Danlami, 2019). For lending to take place, banks accept deposits which provide a source for providing loans as well as other forms of advances. The financial institutions bear the cost of holding deposits and carrying out lending activities to generate revenue (JoEtta, 2017). Their main sources of revenue include interests, commissions, margins, and fees.

Effective practice towards the management of credit is crucial for credit scoring improvement by lenders. Implementation of credit management practices enables the inclusion of main predictive factors which constitute a variety of qualification criteria to achieve desired outcomes (Opiyo, 2016). The process of credit management establishes risk factors on lending decision on each loan seeker, parameters of loan product, and adjustments of factor weightings for positive results. In this context, the desired result is to lower the amount of non-performing loans against gross loans (Wandera, 2017). This is achieved through the effective implementation of credit management practices, including credit rationing, client appraisal, debt collection, and credit monitoring among others.

Credit management practices provide a leading determinant of the quality of commercial banks' credit portfolio. Credit management begins with granting a credit facility and never stops until the final payment is completed. Technically, transactions are only complete upon making the final payment. Effective lending ensures that credit seekers follow the guidelines set in the repayment plan (Domeher, Musah & Poku, 2017). Timeliness and promptness in making repayment are crucial to cushion total loss of the sum of interest the bank could potentially earn due to credit's opportunity costs, money value as well as the underlying risk. The goal of credit management involves safeguarding the portfolio of institutions' investments in borrowers as well as maximising operational cash flows. Emphasis should be put on rigorous enforcement of practices for advancing credits, collection of due repayments, as well as high risk factors involved in non-repayments.

Loan performance of commercial banks is measured in terms of loan defaults of borrowers. A non-performing loan refers to the sum of advanced money that a borrower has failed to make at least a scheduled payment within a period of ninety days (Mulyungi & Mulyungi, 2020). It also involves the unsettlement of scheduled principal and interest payments. Non-performing loans are considered defaulted or almost default and such loans are repaid substantially lower amounts in full settlement. Loan defaults emanate from unfavourable circumstances affecting the ability of the borrower to make repayments. The common reasons for defaults include borrowers' unwillingness to make repayments, a laxity of the financial institution to make regular follow-ups, unpredicted crises such as death, illnesses or lay-offs on the part of a borrower, poor business performance, directing the cured credit to its unintended use, and insufficient monitoring of loan performance among others (Absanto & Aikaruwa, 2013).

Application of credit management practices is crucial as they help in the prudent valuation of loans as well as ascertaining appropriate loan provisions. Banks should therefore have a system to reliably categorise loans based on credit risk to improve repayment rate by clients (Kisaka, 2016). Implementation of credit management practices enables loan providers to account for loan seekers' financial condition as well as their paying capacity. Further, it is expected that it would account for the current value of collateral, its reliability, as well as borrowers' and facility related characteristics influencing the collection of loan principal and interest (Mburu, Mwangi & Muathe, 2020).

Statement of the Problem

Commercial banks in a country plays key role in capital accumulation, savings mobilization, and credit creation. Despite their role in credit creation, the commercial banks operating in Kenya have been posting escalating loan books of non-performance in loans between 2018 and 2020 as outlined in the CBK (2020) report. Loan performance of commercial banks is driven by their CMPs effectiveness as a substantial amount of their incomes are from the advanced loans. Income generated from loans comprises on average of between 75 to 80 percent of the total commercial banks' income (Mburu, Mwangi & Muathe, 2020). Recently loan performance of commercial banks has been an issue of concern, as evidenced by growing loan defaults, with 60 percent rise in bad loans, which is Sh27.5 billion posted in 2020 to Sh43.9 billion in 2021 (CBK, 2021). The default rate also rose between 2018 and 2019, as represented by Ksh. 25.7 billion and Ksh. 31.1 billion of bad loans respectively, as per the CBK report (2020).

The Central Bank (2015) supervision report shows that high incidence of non-performing loans within the commercial banking sector presents a situation that has severely affected their loan performance and the overall profitability. The trend not only weakens commercial banks' viability as well as sustainability but also derails their attainment of goals (Mulyungi & Mulyungi, 2020). The denial of loans to MSMEs because of defaults is a hindrance to the achievement of the objective of credit provision. Commercial banks in Kenya are popular for loaning borrowers, but some of them do not conduct depth credit assessment while advancing

loans. The growth of the banking sector in Kenya is linked to effective credit management practices ensuring only borrowers with good credit rating receive loans, reducing non-performing loans as well as overall performance. This has motivated banks to adopt credit management practices to bar high-risk clients with low credit rating scores.

Most previous studies have concentrated majorly on credit models and credit risk management that commercial banks apply to determine their profitability effect (Mburu, Mwangi & Muathe, 2020; Idris & Nayan, 2016; Kimutai & Ambrose, 2013). However, only a limited number of studies have examined credit rationing, client appraisal, debt collection, and credit monitoring as some of the important components of credit management practices and their effects on loan performance among commercial banks in the developing countries, such as Kenya (Kipsang, 2020; Otieno, Nyagol, & Omnditi, 2016). The need for adequate empirical studies on credit management practices as well as the loan performance in the banking sector constitutes the main motivation for this assessment to determine the influence of credit management practices among the commercial banks.

Research Objective

- i. To determine the effect of credit rationing practice on loan performance of commercial banks in Kenya
- ii. To establish the effect of client appraisal practice on loan performance of commercial banks in Kenya

LITERATURE REVIEW

Theoretical Literature

The assessment was based on loanable funds theory by Dennis Holme Robertson (1963), Stiglitz and Weiss' (1981) and the credit rationing theory (CRT) which are explained in detail below:

Loanable Funds Theory

Dennis Holme Robertson (1963) developed the loanable funds theory (LFT) of market interest rate. The LTF was supported by Bertil Gotthard Ohlin (1979) that the demand for as well as supply of funds within the economy determine the rate of interest, at the level in which demand equals supply. LFT assumes a perfect competition prevails in the market and every lender and borrower is a 'price-taker' as well only a single interest rate prevails in a market at a specific time. In such prevailing condition, competition forces are anticipated to facilitate prompt market clearance, for one rate of interest charged on loans becomes the equilibrium interest rate. It can as well be the market-clearing in this situation.

Further, LFT advocates that interest rate paid on loans is taken as the price equating demand for the supply of loanable funds. The interest rate fluctuations emanate from variations in the funds available for credit, demand for loans, or supply of loans. The deduction from this statement is that interest is the same as the price equating loanable funds' demand with their supply. Moreover, loanable funds denote money demanded as well as supplied in the money market at any specified period. With the prevailing interest rate excluded, loanable funds' demand and their supply are depended on the effectiveness of credit management practices lending institutions adopt.

Bank money's availability changes the nature of fluctuations of demand as well as supply. In an economy where money is banknotes or metallic money that the central bank issues, each individual has to acquire a stock of money to aid the finance of transactions. This implies that in order to demand money one has to accumulate a store of cash. Based on this argument, it can be inferred that the functions of money supply and its demand are independent; implying that the quantity of money that circulates can differ with the quantity of money in demand. The variations in these quantities consequently cause differences in price level. The loanable funds theory helps in examining how credit rationing influences loan uptake at the prevailing interest rate and the subsequent loan performance. The relevance of the LFT on credit rationing is that money is requisite for an entity and whoever requires money to purchase goods/services may obtain it by seeking credit from banks at a specified rate of interest.

Credit Rationing Theory

Developed by Stiglitz and Weiss in (1981), CRT is directed at credit markets with information asymmetry, limiting banks' capacity for obtaining accurate information concerning loan seekers as well as to evaluate their actions. The CRT assumes several commercial banks seeking profit maximisation through interests they set as well as collateral required. The aim is to limit the possibility of loan defaults as well as the majority of potential borrowers trying to maximise their profits on selected projects. The possibility of project success is uncertain to the commercial banks but well known to companies owing to information asymmetry. In certain situations, borrowers change to projects with minimum risks to riskier projects promising the best positive returns but portraying low levels of growth. Nevertheless, the situation renders it difficult for banks to control their loan customers' actions.

Banerjee (2008) asserts that commercial banks gain competitiveness through the selection of interest rate as well as application of interest rates to screen good risks from bad risks. Borrowers seek fixed-interest loans to help in funding projects with an equal outcome, but the situation compels loan seekers with low credit scores to bear higher interest rates. Nonetheless, high interests can pilot a cut in the expected profit of commercial banks owing to disagreeable choice influence because of dwindling quality of loan applicants' selection and the effect of incentive from pattern variation of borrowers changing from safe to high

risk projects. Hence, equilibrium takes place at the interest rate where commercial banks maximise their expected profits.

The theory facilitates the understanding of factors leading to pure credit rationing as well as redlining. Okurut *et al.*, (2006) identifies factors of loan seeker's observable attributes of credit history, wealth, age, experience as well as loan characteristics of interest rate, loan maturity, amount demanded, and collateral offered. Commercial bank's credit rationing behaviour were categorised into screening, quantity, as well as evaluation rationing stages as Lapar and Graham (1988) suggested. The screening marks the stage where the commercial bank's manager interviews the loan seeker to ascertain their eligibility for the loan, specifically analysing their loan demand, creditworthiness, as well as favourable terms.

Notwithstanding the relevance of CRT's criticism its skewed emphasis on banks' allocation of resources while ignoring endogenous money-creation. Wolfson (1996) avers that banks adjust credit reserves accordingly to accommodate demand. The demand creditworthy borrowers are preferred by commercial banks and are served promptly, which is referred to as the effective demand (Wolfson, 1996). The existing difference between original demand and effective demand implies credit rationing. A factor that influences commercial bank's perception regarding the future creditworthiness of a loan seeker could result in shifting effective demand curve with a corresponding shift in credit rationing.

Empirical review

Credit Rationing and Loan Performance

Kofarmata and Danlami (2019) used a multinomial logit model to analyse credit rationing among farmers in the rural areas of Kano State of Nigeria. The assessment found the engagement of farmers in farming activities greatly influenced credit rationing and consequent effect of farm profit. Contrary to the commercial banking sector, the study was based on agricultural credit rationing, a gap to be filled.

Domeher, Musah, and Poku (2017) used a multinomial logistic regression to analyse credit rationing among the small and medium enterprises in the context of Ghana. The study findings revealed the presence of credit rationing within the SME sector. The results confirmed credit rationing among the SMEs varies and the variations are based on business characteristics as well as SME owner characteristics. The application of the survey method in this study however exposed the assessment of credit rationing to biases as per the responses obtained. The use of indirect method in this study was further limited because of the absence of publicly available data. However, the current analysis may fill this gap by using the published information on loan performance drawn from CBK reports and the annual reports of the respective commercial banks.

Kisaka (2016) used a cross-sectional survey design to determine the effect of credit rationing on performance of loan books among the commercial banks in Kenya. Primary data comprised credit rating practices among the commercial banks while secondary data was based on performance of loan book. The findings from the regression analysis showed that credit rating positively influenced loan book performance, with the capacity to pay being the most influential. It could be inferred from the analysis that credit rationing is crucial in risk assessment as it helps minimise cases of loan defaults. However, the use of cross-sectional design was not appropriate as data on loan performance covered a series of years. It would be appropriate to use this design if only questionnaires were applied in primary data gathering.

Client Appraisal and Loan Performance

Mulyungi and Mulyungi (2020) studied how client appraisal influences the performance of financial institutions. A descriptive research design was applied in this assessment based on Guaranty Trust Bank Rwanda and the findings showed client appraisal and financial performance relate positively. It can be inferred from the results that client appraisal based on business finance and individuals as well as physical characteristics contained within the credit scoring models as well as credit reference bureau utilisation and analysis of credit risk is crucial for establishing appropriately reliable clients to advance loans. The identification of the right strategies to ascertain the suitability of borrowers reduces the chances of loan defaults and overall loan performance.

Njeru, Mohhamed, and Wachira (2018) conducted a census study to assess how credit appraisal affects commercial banks' effectiveness in the Kenyan context. The assessment result showed that credit appraisal significantly determines the banking sector's performance. Lending to borrowers by putting emphasis on past information, credit history, and credit referencing strengthens credit appraisal and limits the chances of credit defaults.

Aliija and Muhangi (2017) applied a mixed research approach to study management of loan appraisal on credit performance effectiveness using the microfinance institutions (MFIs) with operations in Uganda. Findings revealed that client appraisal is strongly associated with credit performance. It can be deduced from the study findings that strengthening client appraisal techniques within the MFIs would render them more effective and subsequently leading to better credit performance. However, this study was based on the microfinance institution sector that has a different loan structure and institutional structure with the commercial banking sector.

RESEARCH METHODOLOGY

Descriptive survey design was applied as it ascertains common characteristics of a specific population or subjects as recommended by Bryman and Bell (2015). The design was relevant for this assessment because it helped to ascertain the individual real perceptions as well as value to identify the extent to which the situation links with the target population. The analysis was cross-sectional as the assessment cut across the entire commercial banks

operating in Kenya as well as replicates to the whole banking industry. The survey covered all the 38 commercial banks based in the country. A census was used because of the small population, which is less than 100 (≤ 100) as recommended by Creswell (2014). A total of thirty-eight credit managers were drawn from these 38 banks. Primary data on credit management practices was collected through structured while secondary data on loan performance for three years was collected through published materials and annual Central bank of Kenya reports. content validity considered how a research instrument measures the targeted content area.

Construct validity was completed by making a comparison between items in the research instruments, theoretical expectations as well as hypothesised claims to ascertain how well they fit. Clear definition of constructs was operationalized for the analysis to be based on the correct concepts' interpretation. Reliability of the instrument was measured through Cronbach Alpha coefficients which gave coefficients of above 70%. The collected data was numerically coded to aid statistical analysis, using descriptive statistics of mean, percentages, and standard deviation for the analysis of data collected. Multiple regression analysis was applied in determining the linkage of CMPs and loan performance as recommended by Creswell (2014). Tables were used in presentation of the findings.`

The analysis was generated as per the regression model:

Since the loan performance (Y) is a function of credit management practices.

Loan Performance = f (X₁, X₂, X₃, X₄).

Hence,

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \epsilon$$

Where, Y = Loan Performance
 β_0 = Constant
X₁ = Credit rationing
X₂ = Client appraisal
E = Error term

STUDY RESULTS AND FINDINGS

A total of 38 questionnaires were given to 38 credit managers of the 38 commercial banks in Kenya. The completed 38 questionnaire represents a response rate of 100 percent. Response rate is considered the best and is worth analysing and interpreting data.

The descriptive statistics were used to analyse responses obtained from assessed credit managers of commercial banks, Kenya. This involved the use of mean and standard deviations to analyse credit management practices of credit rationing, client appraisal, debt collection, and credit monitoring on loan performance. The responses were rated as; 1: strongly disagree, 2: disagree, 3: undecided, 4: agree, 5: strongly agree. Scores of respondents above 3.0 indicated a high level of agreement to the effect of credit management practices on loan performance while points below 3.0 represented a low level.

Credit Rationing

The respondents were requested show whether their banks applied credit rationing to their borrowers before advancing loans to ascertain the extent to which the practice affected loan performance of those banking institutions. Table1 shows the findings.

Table 1: Descriptive statistics for credit rationing

Statement	N	Mean (M)	Standard Deviation (SD)
1. The limit put for the maximum amount of loan advanced determine the success of our loan repayments	38	3.82	0.76
2. Interest rate charged on loans affects the performance of loans	38	4.07	0.12
3. Our interest rate has contributed to high default rates of loan repayments	38	2.87	1.94
4. The threshold put loans advanced by our bank has locked out clients from taking loans with us	38	3.21	0.87

Source: Survey data (2022)

Based on the findings in Table 1 above, when asked about limit put for the maximum amount of loan advanced determine the success of our loan repayments the results showed (M = 3.82, SD = 0.76), in response to Interest rate charged on loans affects the performance of loans, the results were as follows: (M = 4.07, SD = 0.12), With respect to their interest rate leading to high default rates of loan repayments, the results showed (M = 2.87, SD = 1.94), implying that the commercial banks charge favourable interest rates that insignificantly discourage borrowers from seeking loans. When asked about their threshold for loans advanced by our bank has locked out clients from taking loans (M = 3.21, SD = 0.87).

The above findings are indicative that many commercial banks apply credit rationing before granting them credit. Further, the assessment results confirm the findings by Absanto and Aikaruwa (2013) that credit rationing positively affects loan performance. This is also supported by Kisaka (2016) that credit rating positively influenced loan book performance.

Client Appraisal

Respondents were asked to comment on the extent to which client appraisal affects loan performance. Table 2 presents the results.

Table 2: Client appraisal

Statement	N	Mean	Standard deviation (SD)
1. Amount of loan granted by our bank determines our loan performance	38	3.04	1.93
2. Actual loan repayment is influenced by our clients' individual character.	38	4.02	0.58
3. Client appraisal has enabled our bank to have fewer outstanding loans	38	4.83	0.12

Source: Survey data (2022)

From the result in Table 2, Amount of loan granted by our bank determines loan performance (M = 3.04, S.D = 1.93), regarding Actual loan repayment is influenced by clients' individual character (M = 4.02, S.D = 0.58). As for client appraisal enabling bank to have fewer outstanding loans the results are as follows (M = 4.83, S. D = 1.12). This is a clear indication

that most commercial banks undertake client appraisal. Further, client appraisal affects the extent to which borrowers make their loan repayments.

The above findings are in agreement with Mulyungi and Mulyungi's (2020) that client appraisal and financial performance relate positively. Similarly, Njeru, Mohhamed, and Wachira (2018) found that credit appraisal significantly determines banking sector's performance. Aliija and Muhangi (2017) further confirmed that client appraisal is strongly associated with credit performance.

Regression Model Summary

The model summary presents information about the regression line's ability to reverse rotation complete variation of dependent variations. The section shows the links between two variables (R). Table 3 presents the findings are presented.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.759 ^a	.5761	.5185	.108

a. Predictors: (Constant), credit rationing, client appraisal

b. Dependent variable: loan performance

The findings shown in Table 3 show that the predictions in the model provide a positive correlation ($R = 0.759$) with performance. The coefficient of determination (r^2) from Table 3 is 0.5761. It means that the independent variability of the coefficient represents 57.61 percent variance. The remaining 42.39 percent can be explained by other indicators, left out of the experiment.

Analysis of Variance

Diversity analysis shows the relationship between these two variables. This section indicates the number p ("sig" for "importance") of the prediction effect on the subject flexible. P values below .05 are generally considered to be "statistically significant. In this, the relationship between credit management practices and loans performance was determined. Table 4 presents the results.

Table 4: ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	61.234	2	30.617	23.912	.001 ^b
Residual	17.112	35	.489		
Total	78.346	37			

a. Dependent variable: loan performance

b. Predictors: (Constant), credit rationing, client appraisal, debt collection, credit monitoring

From the Table 4, ANOVA result, 0.001 probability (^b) was obtained, which means that the regression model was important in predicting the relationship between credit management practices and loan performance. Independent variables used to explain this link. The F scale is used to test whether R² can have it or not it happened by chance alone. The F value found in the ANOVA measures the chances of departure from a straight line. Credit management practices and loan performance implies that this relationship is superior to $\alpha = 0.05$. With the use of Table F, Table F (5%, 2, 27) was lower F = 23.912 which also indicated that the model was significant.

Test of Co-efficients

The section shows the beta coefficient of actual regression equation. The attention is on "irregular coefficients," because this phase includes the y-intercept noun (beta zero) and diminishing term (beta one). "Normal coefficients" no based on the re-measurement of the variable so that the y-intercept equals zero.

Table 5: Regression coefficients^a

Model	Unstandardized Coefficients		Standardize d Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.207	.527		1.102	.001
Credit rationing	.356	.031	.362	3.534	.001
Client appraisal	.408	.052	.317	3.098	.001

a. Dependent variable: loan performance

Based on the results, the following regression model was obtained.

$$Y = 0.207 + 0.356X_1 + 0.408X_2 + e$$

Meaning;

Where: Y = loan performance;

β_0 = constant;

X_1 = credit rationing,

X_2 = client appraisal

$\beta_1, \beta_2, \beta_3, \beta_4$ = Coefficients of credit management practices

ϵ = error term

Based on the retrospective results shown in Table 5 considering all types of credit management practices with a constant zero, loan performance would be 0.207. Keeping some of the variables unchanged, an increase in unit on credit rationing could lead to an increase in loan performance by 0.356. In addition, a unit increase in the client appraisal could lead to an increase in loan performance by 0.408. The analysis also found that at 95 percent confidence level, the p-value for credit rationing (p-value = 0.001) was less than 0.05 that led to the rejection of the formulated hypothesis that credit rationing does not significantly affect loan performance of commercial banks. Similar results were found for client appraisal practice (p-value = 0.001), debt collection (p-value = 0.000), and credit monitoring (p-value = 0.001). This showed that at 95% confidence level, null hypothesis for client appraisal, debt collection, and credit rationing practices were rejected. This led to the conclusion that client

appraisal practice, debt collection practice and credit rationing practices have significant effect on the loan performance of commercial banks in Kenya.

The findings of this study were in agreement with Kisaka (2016), Ata *et al.* (2015) and Absanto and Aikaruwa (2013) that credit rationing positively and significantly affect loan performance. Mulyungi and Mulyungi (2020), Njeru, Mohamed and Wachira (2018) and Aliija and Muhangi (2017) found that credit appraisal practice significantly affects loan performance which is similar to the findings of the current study.

CONCLUSION AND RECOMMENDATIONS

Conclusion

Based on the findings, the study made conclusions on the basis of the formulated objectives and hypothesis. The study concluded that credit management practices significantly affect the loan performance of commercial banks in Kenya. Accordingly, loan performance of commercial banks depends on credit management practices. Secondly, the study concluded that credit rationing practice significantly affect loan performance of commercial banks. The study further concluded that client appraisal has a significant effect on credit performance of the banking sector. This indicates that the development of client appraisal would improve the performance of loans in the banking sector. The study concluded again that credit rationing has a significant impact on the performance of commercial bank loans. This means that the development of effective credit rationing could lead to the development of loans banking sector performance.

Recommendations

The study made several recommendations based on the findings. The suggestions would guide policy formulation and practice.

Recommendations for Policy

Policymakers and regulators of the commercial banking sector should design effective policies to promote loan performance of these banks. The Central Bank of Kenya as well as Kenya Bankers Association should borrow the study findings to make decisions to improve loan performance also referred to as the asset quality of these banks. Policy decisions of tax rebates and tax exempt on training costs on the implementation of new credit management practices should be developed based on assessment findings.

Recommendations for Practice

Commercial banks' management in the country should borrow the study results to establish the most significant credit management practices. The managers should also identify the loan performance determinants influenced by credit management practices under assessment. The

understanding of how credit management practices relates to loan performance should enable commercial banks to implement the most effective credit management practices for better loan performance. The findings should also be replicated to other financial institutions in the country.

The analysis recommended that all commercial banks in Kenya should regularly check and update the practices relating to debt collection, client appraisal and as well as credit monitoring to ensure that all credit risks of loan defaults and non-performing loans are identified and recorded by the credit department at the institutional level. Further, the analysis also recommended that commercial banks should have an independent internal control system to operate further evaluation of bank debt collection, client appraisal procedures, and credit monitoring system. In addition, commercial banks must develop suitable customer appraisal ways to reduce loan default risk. A proper customer credit plan should also be available based on their ability to repay their debt as well as customer loyalty. The commercial banks should also monitor emerging risks associated with credit management practices to limit adverse effects on loan performance.

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