BRIDGING THE CREDIT GAP: CREDIT APPRAISAL AND LOAN UPTAKE AMONG MEMBERS OF DEPOSIT-TAKING SACCOs IN KENYA

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ABSTRACT

The study objective was to examine the relationship between credit appraisal and loan uptake by members among deposit taking Co-operative Societies in Kenya. Generally, recent statistics reflects a positive trajectory on overall loan uptake, however quite a substantial part of the loans issued relates to defaulted loans as per SASRA (2022) report which has translated to liquidity challenges among DT-SACCOs. The study sought to examine the effect of credit appraisal on loan uptake by members of deposit taking Co-operative Societies in Kenya Specific objectives were determine the effect of capacity, collateral, credit scoring and character appraisal on a loan uptake to members in DT-SACCOs. Agency theory, credit risk assessment theory, theory of credit risk and the competitive pricing of default risk and information asymmetric theories were the main guide to this research. The target population was 177 recognized DT-SACCOs countrywide as per SASRA list of licensed DT-SACCOs for the year 2025. A sample size 53 DT-Sacco's in Nairobi County was purposively selected. Primary data was collected using a semi structured questionnaire, Descriptive and inferential statistical tools were used for data analysis. The findings revealed that repayment capacity appraisal, Collateral appraisal, credit scoring appraisal had positive and significant effect on loan uptake However, character appraisal was found to have positive insignificant effect loan uptake suggesting that although it remains an important consideration during credit evaluation, it does not independently determine loan uptake among DT-SACCO members.

Key words: Credit scoring appraisal, Credit uptake, Collateral appraisal, character appraisal and repayment capacity appraisal.

INTRODUCTION

Savings and Credit Cooperative Societies (SACCOs) are vital in financial systems since they mobilize members' savings and redistribute them in the form of loans. They have enhanced financial inclusion by reaching groups that traditional banking systems often overlook due to challenges such as limited income, lack of collateral, or geographical isolation (Ntuite, 2022). According to the International Co-operative Alliance (ICA), Gordon and Jones (2020) estimate that almost one billion individuals are members of SACCOs worldwide. SACCO Times (2019) also underlines that their central target group is individuals with low-income backgrounds and marginalized populations, providing them with specialized financial products that best suit their needs.

They are tailored to underserved and low-income populations and thus are essential in promoting social and economic growth (SACCO Times, 2019). SACCOs are the most aggressive and fastest-growing movement of cooperatives in Africa, with Kenya leading. This is because of their cheap credit, dividend payments, and high returns on savings, which make them very attractive (WOCCU, 2021). In Ghana, the first SACCO was established by Father John McNulty in 1955 with the intention of enhancing the community's welfare (Ng'ombe & Mikamba, 2019).
Due to regional joint activities, the African Confederation of Cooperative Savings and Credit Associations was formed (ACCOSSCA) in 1965, which served to advance education and cooperative principles. SACCOs started gaining force in East Africa in 1970s through backing of rural banks and postal savings institutions (Bosco, 2019). Nevertheless, there are still issues; in Uganda, more than half of SACCOs failed or performed poorly because of defaults and poor financial discipline (Independent, 2021).

SACCOs in Kenya are heavily regulated. As of 2024, there were 358 SACCOs, 177 of which were licensed deposit-taking institutions and 181 were non deposit-taking organizations as per 2025 SASRA list of licensed SACCOs.

Loan Uptake

Loan uptake can be described as extent of individuals or businesses utilizing credit facilities to fulfill the following requirements; growth of businesses, personal expenses, or emergencies (Kamau, 2021). In addition to being a mechanism of borrowing, loan uptake is a major indicator of financial inclusion, since it reflects loan amounts that marginalized communities can take (Gebrekidan and Kaiyu, 2019).

Loan uptake is measured by several factors, such as increase in loan portfolios' size, application, average loan size, approval ratios, disbursement efficiency, and repayment performance (Singh, 2021; Adamba, 2024; Bhat and Mahale, 2023). Indicatively, CBK (2023) reported that by

September 2023, 48.5% of farmers had taken loans through SACCOs with large-scale farmers recording higher uptake rates than smallholder farmers.

SASRA (2022) reported that SACCOs paid 7.11% on average deposits, which is significantly higher than the 3.00 rate of commercial banks. These preferential rates promoted borrowing amongst members. Nevertheless, obstacles like COVID-19 pandemic and increased living expenses had adverse impacts on savings and access to credit (Cooperative Alliance of Kenya, 2021). Moreover, policy interventions, such as interest rate cap of 2016, reshaped behaviour of borrowed funds, shifting some borrowers out of SACCOs to commercial banks (KUSCO, 2020).

Credit Appraisal

Structured evaluation of a borrower repayment capacity, typically by checking financial statements, cash flows, credit history and collateral availability, is known as credit appraisal (Catherine, 2019; Aduda and Obondy, 2021). The tradition can be traced to ancient Greece and Rome, when moneylenders used collateral to mitigate the risk of lending money (Alio, 2021).

In SACCOs, institutional sustainability depends on credit appraisal. It checks the ability to repay, checks the credit behaviour of borrowers in the past, analyses the adequacy of collateral, and uses credit reference bureau (CRB) reports as credit scoring (Goel and Rastogi, 2023; Baluku, 2019). The approaches make sure that SACCOs reconcile accessibility to loans and appropriate risk management (Ogweno & Bula, 2023).

Evaluation of repayment capacity helps SACCOs to know the creditworthy members hence reducing lending risks. The process guides decisions made on loan approvals, credit limit, and strategies of debt collection (Ogweno & Bula, 2023).

Character appraisal entails analysis of past financial behaviours of a borrower like loan repayment history to determine future dependability. This knowledge offers a critical foundation on which to base decision-making when applying a loan. Deposit-taking SACCOs (DT-SACCOs) can forecast potential risks and provide knowledgeable lending decisions by analysing member previous behaviour (Goel & Rastogi, 2023; Kurniawan, 2021).

Collateral appraisal is concerned with the value and liquidity of assets that are pledged by borrowers as security of loans. This would guarantee that, when default occurs, the loan and associated expenditure can be adequately compensated using the collateral. The most common types of collateral are title deeds, guarantor ship, and other assets that are correlated to the amount of the loan (Baluku, 2019).

CRB reports are vital in credit scoring because they depict the repayment history and credit status of borrowers. This method aims to calculate default's probability and reinforce lending choices by DT-SACCOs (Goel and Rastogi, 2023a).

Statement of the Problem

There is a constant divergence in expectations of SACCO members and the operational priorities of the institutions. Although members usually aim at getting affordable credit to enhance their economic welfare, SACCOs, which operate under the SASRA, must focus on risk management by implementing stringent credit appraisal procedures.

In its 2022 report on supervision, SASRA reported that total loans in regulated SACCOs have increased by 11.76% to Ksh. 680.35 billion. The highest proportion of this growth was recorded by DT-SACCOs which increased by 12.24% to Ksh. 586.16 billion. Although this is positively trending, loan defaults continue to be a significant issue, posing a liquidity risk to most SACCOs. This problem explains why thorough borrower assessment should be done prior to loans disbursement.

Past studies provide inconclusive results. Jepkorir (2022) found that open evaluation of collateral, cash flows, and character are part of successful loan disbursement, however, her case study design made it more difficult to generalize the results to all SACCOs. By targeting microfinance banks, Joshua (2021) found various risk dynamics in comparison to SACCOs, which created gaps in knowledge about the sector. Equally, Kinyua (2022) established that repeated monitoring and client appraisal enhanced repayment in revolving funds, but failed to fully cover the five Cs of credit appraisal.

According to these studies, there exist considerable gaps in knowledge about the direct relationship between particular appraisal strategies: repayment capacity, collateral, character, and credit scoring, and loan uptake in SACCOs. Minimal empirical literature has statistical backup to clarify the combined effect of these factors on loan access, thus creating an acute knowledge gap in cooperative finance.

Objectives of the Study

i. To analyse the effect of repayment capacity appraisal on loan uptake among DT-SACCO members in Kenya.
ii. To determine the effect of collateral appraisal on loan uptake among members of DT-SACCOs members in Kenya
iii. To investigate the effect of credit scoring appraisal in shaping loan uptake in DT-SACCOs members in Kenya
IV. To assess the effect of character appraisal affects loan uptake among members of DT-SACCOs members in Kenya

REVIEW OF LITERATURE

Theoretical Review

Agency Theory

Agency theory was developed by Jensen and Meckling (1976) to describe connection between principal (owners) and agency (managers). As per the theory, a conflict can ensue where managers serve their own interest at the expense of owners. Given that the two parties seek to maximize utility, risk preference differences and unequal information access may lead to agency problems.

It rests on several assumptions: (i) the managers and the owners have conflicting interests and risk preferences; (ii) agents have more information and control than the principals; (iii) managers are rational and self-interested, their owners use disclosures to control them; (iv) where the goals of the agents and the principal are not similar, it is difficult to keep the agent in check.

Managers are agents in SACCOs and are charged with responsibility of safeguarding member's savings. They can however give loans to unqualified borrowers due to their selfish interest or poor supervision. This renders the theory very applicable to appraisal of repayment capacity since poor judgment or wrong incentives can augment the threat of defaults.

Credit Risk Assessment Theory

Merton (1974) proffered this and it accentuates importance of assessing chances of borrower default. The theory holds that the lenders should not grant loans when the anticipated payment is less than the risk involved. Among the main factors are financial health, current liabilities, and repayment opportunities.

The theory presupposes on: (i) All lending decisions hinge on risk–return tradeoffs; (ii) expected returns should be sufficient to compensate risks; and (iii) loans with risks that outweigh potential returns should be eliminated. Since lenders are prone to high risks in case of large loan amounts, they should be well safeguarded using collateral.

This model can be applied to SACCOs because it focuses on collateral in alleviating lending risks. Collateral assets provide a backup mechanism to lenders in event of default. Collateral evaluation should be done properly by evaluating value and liquidity to make sure the loan is sufficiently covered (Koulafetis, 2017). Although stringent collateral demands can limit accessibility among qualified borrowers, lax standards expose lenders to too much risk (Sumantri, 2021).

Theory of Credit Scoring and Competitive Pricing of Default Risk

This describes the manner in which credit scoring systems forecast repayment behavior and enable lenders to charge risk-based prices. Highly creditworthy borrowers find it easier to secure loans at favorable rates while high-risk individuals get to be put in stricter conditions (Goel & Rastogi, 2023).

The theory presumes: (i) legal right to default remain with the borrowers; (ii) those who default are not barred forever in future borrowings; (iii) Lenders face no barriers to entry or exit; and (iv) loaners are unable to effectively collude to penalize defaulters. These suppositions contribute to openness of credit scoring which can help lenders assess creditworthiness accurately.

In SACCOs, credit scoring depends greatly on the Credit Reference Bureau (CRB) reports to classify members. Not only does it encourage effective pricing of loans, but it also contributes to reducing default risks because accessibility and risk control is balanced.

Information Asymmetry Theory

In his article The Market for Lemons: Quality Uncertainty and the Market Mechanism, Akerlof (1970) coined the term information asymmetry. The theory states that sellers tend to possess more information with regard to product quality, than the buyers in most markets, and thus adverse selection occurs. The average market information is utilised by buyers to make decisions, and the sellers use their advantageous information.

The assumptions made by the theory are as follows: (i) unequal access to information leads to market failure because of inefficiency in the allocation of resources; (ii) consumers choose the options available to them which is limited.

In lending, financial institutions are generally at risks because borrowers know more about their capacity to repay than financial institutions. In SACCOs, these information gaps can be minimized through vigorous appraisal approaches, which include cash flow, collateral and credit history analysis.

The theory specifically applies to character appraisal. Lack of sufficient information exposes the loan officers to the possibility of misclassifying the high-risk borrowers as low-risk exposures thereby exposing the company to defaults. Credit histories, repayment trends, and current debt status should also be assessed as this gives a framework of a borrower's aptitude to honor his or her obligations (Nana et al., 2022). To the same extent, comparative product information aids in rational decision making in credit markets (Hoppe and Schmitz, 2020).

Empirical Literature Review

Charles (2020) reviewed how agricultural financing in Kenya is impacted by credit assessment practices. Data collection was done on 336 respondents out of the total of 2,133 farmers using stratified sampling and analyzed in SPSS (version 24). Outcomes uncovered that repayment ability significantly affected access to agricultural credit. Of particular importance were presence of cash balances, agribusiness expertise, and annual income. The examination however, failed to directly ascertain repayment capacity's impacts on loans' uptake in SACCOs thus creating a gap in knowledge.

Kisaka (2020) investigated credit rating relationship with loan portfolios' performance in Kenyan commercial banks. A cross-sectional survey of 44 banks was undertaken with primary and secondary data being analyzed in SPSS. The outcome indicated repayment capacity and credit reference reports were found to be the important determinations. Although the review proved to be very beneficial to the banking industry, it did not address how such practices can be applied to the SACCOs.

The work by Ndung'u (2022) explores credit risk and loan performance in Nakuru County concerning revolving funds. Purposive sampling and descriptive design were employed to gather information using semi structured questionnaires. Results revealed ability to pay back was a major predictor of loan performance. Nevertheless, as the research was limited to revolving funds, it could not be extended to all SACCOs, which leaves a gap to be filled through other studies.

Luck and Santos (2019) studied collateral valuation impacts on bank lending. They studied the various types of collateral and its impact on loan pricing with special reference to firm risk and loan attributes. They concluded that collateral is crucial in reducing borrowing costs, especially in smaller and risky companies. Though informative, this examination was in respect to the banking sector, thus missing a gap on the role collateral appraisal plays in uptake of SACCO loans in Kenya.

In Nairobi County, Yusuf (2022) assessed collateral security effects on DT-SACCO loan performance through a descriptive study of 45 senior credit officers. Questionnaires amassed data and owing to small size of the population, census was employed. Results indicated that good collateral and appraisal practices improved credit performance. Although the study is insightful to Nairobi, it does not cover direct effects of collateral appraisal on loan uptake at SACCOs in Kenya in a comprehensive manner.

Ngode (2021) investigated collateralization impacts on Kenya's commercial banks' loan performance. It employed a descriptive design to analyze 38 annual financial reports (2016-2020) to determine collateralization significantly negatively correlates with NPL ratios. This implied that

increasing collateralization level enhances loan performance. Nevertheless, the investigation majored on banks instead of SACCOs and therefore created research gap in the cooperative sector.

Rithaa (2022) examined collateral requirements impacts on SMEs performance in Meru County. The sampling technique was simple random and SPSS 21 analyzed data. Outcomes showed that strict collateral requirements adversely impacted accessing credit by SMEs, and hence, hampered growth. Though applicable to SMEs, the results fail to offer specific commentaries on how collateral appraisal influences loans uptake in DT-SACCOs.

Obbuyi (2019) investigated credit rating effects in relation to loan take-up in SACCOs in Nairobi County. Data was amassed via questionnaires using an explanatory research design that employed 30 registered SACCOs and analyzed using SPSS. Effective credit rating systems was uncovered to largely enhance loan uptake, lower default rates and efficiency in information delivery. Nevertheless, the research was narrowed down to Nairobi, which emphasizes necessity of a wider study that involves other areas and SACCOs.

Kisaka (2020) examined credit rating impacts in the growth of Kenyan commercial banks' loan portfolio. The cross sectional research focused on 44 banks and examined data via SPSS. Results proved that loan book performance depended on repayment capacity, CRB reports and securities. Though useful, it only centered on banks, making unclear on the direct implementation of the practices to SACCOs.

In the Guaranty Trust Bank Rwanda, Mulyungi and Mulyungi (2020) evaluated client appraisal impacts in financial performance. Their findings, based on using descriptive design, revealed client appraisal positively significantly correlates to institutional performance. They focused on the fact that credit scoring models, supplemented by CRB data, are needed to establish credible borrowers, as well as minimize defaults. Even though informative, the study concentrated on the banking industry in Rwanda as opposed to Kenyan SACCOs.

All these studies have accentuated value of credit scoring to minimize risk and improve loan uptake. Nevertheless, research gap exists in knowledge about specific credit scoring effects on borrowing patterns in Kenyan DT-SACCOs.

Charles (2020) examined credit assessment factors effects on agricultural credit uptake in Kenya's South Imenti Sub-County. Stratified sampling was used to collect data on 336 farmers. Character was established as a great determinant to loan uptake with education background, social standing and repayment history being the most effective factors. But dependence on previous loans proved to be least important consideration by lenders. Though informative, the investigation failed to specifically examine role of character appraisal in SACCO loan uptake.

Githama and Gachanja (2020) explored how credit appraisal approaches affected NPLs in Kenya's Commercial Bank. Questionnaires using descriptive design were administered to 20 financial institutions in Nairobi. Combined descriptive and inferential statistics revealed 5Cs of credit such as character was critical in credit risk management. The research however did not consider character appraisal impacts on loan uptake in SACCOs.

In their article, Agaba, Turyisingura and Kabagambe (2023) evaluated significance of lending appraisal in SACCO performance in Uganda's Rukiga District. The information was gathered using 109 respondents in five SACCOs and analysis involved descriptive, bivariate as well as multivariate level. Outcomes uncovered loan appraisal and SACCO performance had a strong positive correlation especially on issues on character, capital and conditions. However, the research was more on performance results and not on direct loan uptake.

Esther, Usman and Abubakar (2022) examined client appraisal impacts on microfinance banks in Nigeria's Adamawa State. As the investigation used survey design and a sample of 21 credit officers, they discovered assessment of client character, collateral, capital, capacity and condition positively affected efficiency and productivity of the institute. Even though applicable to microfinance banks, the research fails to directly give an insight into how character appraisal influences loans taking in SACCOs.

RESEARCH METHODOLOGY

This study adopted descriptive research design, which is appropriate to analyze variables' relationships as they exist, not manipulated. The target population included top managers of DT-SACCOs According to the list of licensed deposit-taking SACCOs released by SASRA in 2025, 177 registered DT-SACCOs are presented, which translate into 177 Chief Executive Officers. SASRA licensed these SACCOs as of 31st December 2024 It is proposed by Mugenda and Mugenda (2003) that sampling 10-30 percent of the population is quite good to provide a meaningful representation. Upon this recommendation, a sample of 53 Chief Executive Officers was first taken based on 30 percent of total Kenya's DT-SACCOs. Empirical Model

A multiple regression model also was used to determine strength and direction of variables' relationship. The regression equation was specified as shown below:

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon}$$

Where:

Y = Loan uptake (dependent variable)

X_1 = Repayment capacity appraisal

X_2 = Collateral appraisal

X_3 = Credit scoring appraisal

X_4 = Character appraisal

β_0 = Constant term
β_1, β_2, β_3, β_4 = Regression coefficients
ε = Error term

RESEARCH FINDINGS AND DISCUSSION

Descriptive analysis

Table 1 Descriptive Statistics

Descriptive Statistics	Mean	Std Dev
Repayment Capacity Appraisal	**4.08**	**0.86**
Collateral appraisal	**4.13**	**0.87**
credit scoring appraisal	**4.24**	**0.80**
character appraisal	**4.17**	**0.83**
Loan uptake	**2.94**	**1.19**

From the findings, the overall mean of the repayment capacity appraisal is 4.08 with 0.86 SD, denoting DT-SACCOs use repayment capacity appraisal extensively in credit appraisal. The results indicate that financial capacity to repay loans is one vital criteria used by SACCOs to reduce credit risk, but at same time be prudent when lending. The results are also similar to those of previous empirical research. Repayment ability, annual income and balance of cash on hand were ascertained as critical features impacting accessibility of agricultural credit by Charles (2020) Ndiwka (2022) also found that repayment capacity vitally influenced agricultural loans' performance in revolving funds. Likewise, Kisaka (2020) reported that the ability to repay was among the important elements determining commercial banks' loan portfolios performance. Credit reference information was also found to be crucial.

Collateral appraisal averaged overall at 4.13 with SD= 0.87, depicting agreement that collateral appraisal is practiced widely in credit appraisal in DT-SACCOs. The results suggest that the collateral assessment before the approval of loans is an important factor considered by SACCOs for loans. These practices enable institutions to reduce default risk, preserve members' savings, and ensure healthy loan portfolios. The low level of dispersion of the responses also indicates uniformity of the collateral appraisal practices among the participating SACCOs.The findings of the study corroborate study by Yusuf (2022) found that DT-SACCOs in Nairobi County had strong loan performance when they had effective collateral security practices, which helped to lower credit risk and increase the recovery of loans.

With a mean of 4.24 and SD 0.80, credit scoring appraisal ranked highest among the variables studied. Outcomes revealed DT-SACCOs use the credit grading methods extensively in the credit appraisal process. Deviation is also relatively low indicating views about the significance of credit scoring in loan evaluation were fairly similar. Evidence points to SACCOs valuing

objective approaches to credit assessment to make better lending decisions, reduce default risk and ensure the growth of their loan portfolios in a sustainable manner. Outcomes tally with Obbuyi (2019) who found that good credit rating systems would improve loan access for SACCOs in Nairobi County and at the same time lower their default rates.

Respondents' mean score of 4.17 (SD = 0.83) evidences their view that DT-SACCOs use character appraisal to a great extent while making credit appraisal. The results indicate that SACCOs understand that financial capacity alone is insufficient to forecast repayment behavior and that they therefore combine financial capacity with behavioral assessment. SACCOs can assess borrowers' credibility, integrity and past financial behavior effectively, and thus minimize loan default. The relatively small standard deviation also reflects a consistency with respect to the use of character appraisal practices across the participating institutions. Evidence mirror Charles (2020) who ascertained personality traits of the borrowers (including their character, repayment history and social status) notable impacted agricultural credit accessibility in Kenya.

Overall loan uptake averaged 2.94 (SD = 1.19), which translates to a moderate to low level of agreement across respondents about improvement in loan uptake. The implication of this is that credit appraisal primarily has the responsibility of encouraging sound lending, not necessarily the greatest amount of loans being disbursed. The relatively lower rating assigned for loan uptake reflects a conscious effort by DT-SACCOs to ensure that they maintain quality portfolios and manage credit risk rather than aggressively seek to expand their loan portfolios. Institutions can lower their NPLs and enhance their lending activities' sustainability even if the reduction in loans disbursed means that fewer loans are approved and/or that the outstanding loan size is smaller. The results are accordingly the outcome of a conscious focus on both financial inclusion and financial stability in the cooperative sector. This balance is especially crucial for a deposit taking SACCO because they emphasize deposit safety and responsible credit access. The results are also consistent with Charles (2020) who found that the repayment capacity significantly affected the access to credit loans, while Yusuf (2022) revealed that credit performance was improved by appraisal of Collaterals and not merely by increasing the amount of credit being made available. In line with this,

Regression Analysis

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.694[a]	.482	.426	8.16824

a. Predictors: (Constant), Repayment Capacity Appraisal, Collateral Appraisal, Credit Scoring Appraisal, Character Appraisal

Table 4.2 gives total explanatory power of the regression model. The analysis established a strong positive correlation (r=0.694) between the aggregate credit appraisal strategies and loan

uptake in DT-SACCOs. This outcome highlights the significant collective effect on loan access. The coefficient of determination ($R^2 = 0.482$) implies variance in loan uptake is explained by 48.2% of the variance in repayment capacity appraisal, collateral appraisal, credit scoring appraisal, and character appraisal. The other 51.8% of the variation in the model is left unaccounted for by the model.

Table 3: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2297.518	4	574.379	8.609	.000[b]
	Residual	2468.645	37	66.720		
	Total	4766.163	41			

a. Dependent Variable: Loan Uptake

b. Predictors: (Constant), Repayment Capacity Appraisal, Collateral Appraisal, Credit Scoring Appraisal, Character Appraisal

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ANOVA results presented in Table 4.11 show that the regression model is statistically significant, with F = 8.609 and p = 0.000 (< 0.05). This finding suggests that the four appraisal strategies, when considered together, have a substantial effect on loan uptake. The elevated F-statistic confirms that at least one independent variable contributes significantly to explaining variation in loan uptake, prompting further analysis of individual predictors through regression coefficients.

Table 4: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.455	1.065		1.046	.048
	Repayment Capacity Appraisal	.458	.742	.274	.618	.001
	Collateral Appraisal	2.720	2.487	.216	1.094	.000
	Credit Scoring Appraisal	1.246	1.811	.657	.289	.002
	Character Appraisal	1.433	1.043	.467	.040	.353

a. Dependent Variable: Loan Uptake

The adopted model was; $Y = 1.455 + 0.458X_1 + 2.720X_2 + 1.246X_3$

The outcomes uncovered repayment capacity appraisal significantly and positively influenced loan uptake ($\beta = 0.458$, $p = 0.001$). The positive beta coefficient insinuates bettered repayment capacity evaluation enhances members' access to loans. While the coefficient is not so large as some of the other predictors, the significance level shows that the ability to pay back is still a significant factor in the lender's decision. The discovery suggests that, DT-SACCOs that take time to assess borrowers' cash position, cash flow and business expertise and ability to honor

their payslip can lend to qualified members and still adhere to the acceptable risk level. The results also support the earlier empirical research. Charles (2020) found that the repayment capacity significantly impacted agricultural credit access in Kenya while Ndung'u (2022) reported that repayment capacity one of the highest predictors of loan performance in revolving funds.

Regression uncovered collateral appraisal significantly positively influences loan uptake among the DT-SACCO members. ($p = 0.000$; $\beta = 2.720$). The positive regression coefficient indicates that strengthening collateral assessment will lead to increased amounts of loans taken up by the borrowers because it increases the confidence of the lender in the recovery of the loan. This means that through proper assessment of collaterals, the lender (SACCO) can lend more to members as it has sufficient security against the risk of default.The results also align to Yusuf (2022) who ascertained collateral security to notably impact Nairobi's County DT-SACCOs performance. Similarly, Ngode (2021) found that with a greater amount of collateral, the volume of NPLs in Kenyan commercial banks was significantly lowered, whereas Luck and Santos (2019) found that optimal collateral valuation minimized lending risks and borrowing costs. The current study corroborates these findings by establishing effective collateral appraisal augments loan uptake among DT-SACCOs that are spread throughout Kenya.

Regression revealed credit scoring appraisal to significantly and positively affect loan uptake ($\beta = 1.246$, $p = 0.002$). The positive coefficient signifies that the effective use of credit scoring can lead to better loan uptake, as better lending decisions are driven by improved credit scoring. DT-SACCOs using structured credit scoring models regularly have greater ability to identify high risk borrowers and low risk borrowers, which can help them make good credit decisions. The results further agree with previous empirical evidence. Obbuyi (2019) found that effective credit scoring significantly enhanced loan uptake among SACCOs in Nairobi County while simultaneously reducing loan defaults. Kisaka (2020) similarly established that repayment records and CRB reports significantly improved commercial bank loan portfolio performance.

Although character appraisal produced a positive coefficient ($\beta = 1.433$), its influence on loan uptake was statistically insignificant ($p = 0.353$), indicating that character appraisal does not independently explain variations in loan uptake after controlling for the other credit appraisal practices. Although SACCOs consider borrowers' character during loan appraisal, its influence appears to be overshadowed by more objective financial measures such as repayment capacity, collateral and credit scoring. The results partly support the Information Asymmetry Theory put forward by Akerlof (1970) which holds that lenders try to minimize information asymmetry by assessing borrowers' behavioral traits. While DT-SACCOs do consider integrity, repayment history and responsible use of a previous loan, these behavioral considerations do not have a significant impact on loan uptake, once objective financial factors are added into the loan

decision. Thus, character appraisal seems to be improving credit decisions, not necessarily the amount of loans issued.

Conclusions

Repayment capacity appraisal was concluded to significantly positively influence on loan uptake among members of deposit-taking SACCOs in Kenya. Assessing borrowers' income stability, cash flows, account balances, and repayment ability enables SACCOs to make sound lending decisions while enhancing members' access to credit. Effective evaluation of repayment capacity therefore remains critical in prudent credit management.

Collateral appraisal significantly was concluded to influence loan uptake among DT-SACCO members. Proper assessment of the adequacy, ownership, marketability, and quality of collateral provides financial institutions with greater confidence when extending credit. Appropriate collateral appraisal therefore strengthens loan security while facilitating responsible lending.

The findings also lead to the conclusion on credit scoring appraisal significantly positively influencing loan uptake. Usage of borrowers' repayment histories, credit reference information, and financial records enhances the accuracy and objectivity of credit decisions. Consequently, credit scoring provides an effective framework for identifying creditworthy borrowers and supporting sustainable loan growth within DT-SACCOs.

The research affirms character appraisal fails to independently significantly influence loan uptake after accounting for the effects of the other credit appraisal practices. Although borrowers' integrity, previous repayment behaviour, and personal characteristics remain important considerations during credit evaluation, they are more effective when applied alongside financial appraisal techniques rather than as standalone determinants of lending decisions.

Recommendations

First, DT-SACCOs should continue strengthening repayment capacity appraisal by adopting more comprehensive borrower income assessment procedures. Greater emphasis should be placed on evaluating members' cash flows, employment stability, business performance, and repayment affordability to ensure that approved loans match borrowers' financial capabilities while minimizing the likelihood of default.

Second, SACCO management should continuously improve collateral appraisal policies by ensuring that all pledged securities are adequately valued, legally verified, and periodically reviewed. The institutions should also establish clear collateral valuation guidelines to promote consistency, enhance loan security, and protect members' savings without imposing unnecessarily restrictive lending conditions.

Third, DT-SACCOs should invest in modern credit scoring systems that integrate internal member records with external credit information obtained from Credit Reference Bureaus (CRBs). Automating credit assessment processes will improve the accuracy, transparency, and consistency of lending decisions while reducing subjectivity in borrower evaluation.

Fourth, although character appraisal did not independently influence loan uptake, SACCOs should continue incorporating borrowers' repayment history, integrity, and responsible utilization of previous loans as complementary factors during credit assessment. Character evaluation should be integrated with financial appraisal techniques to provide a holistic assessment of borrower creditworthiness rather than being used as the primary basis for lending decisions.

Finally, policymakers and the SACCO Societies Regulatory Authority (SASRA) should continue developing and enforcing standardized credit appraisal guidelines across DT-SACCOs. Uniform credit appraisal standards will promote prudent lending practices, strengthen risk management frameworks, improve loan quality, and enhance the long-term sustainability of the cooperative financial sector in Kenya.

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